BROOKFIELD

PROPERTIES CORPORATION

1997 Annual Report

CORPORATE PROFILE

Brookfield Properties Corporation owns and manages a portfolio of premier North American office properties and also develops master-planned residential communities.

Brookfield owns interests in 55 commercial properties, mostly office buildings, containing 32 million square feet of rentable area in which Brookfield has a net effective ownership interest in 22 million square feet; a real estate management services business which manages over 95 million square feet of space for the company and institutional clients; and a residential home building and land development business which sells over 4,000 lots and 2,000 homes annually.

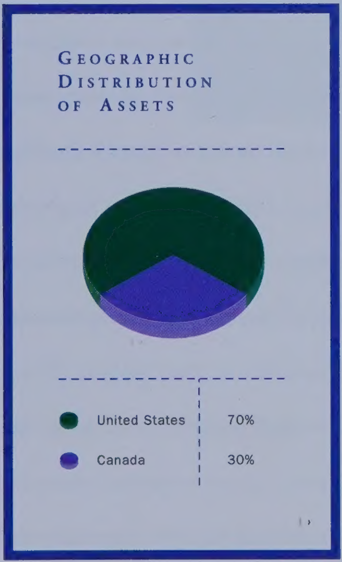
Brookfield's objective is to build shareholder value by owning quality assets and intensively managing each of its operations to increase cashflows for investment in premier office properties and for distribution to its shareholders.

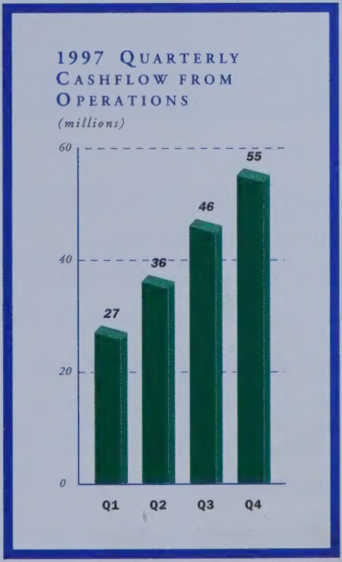
CONTENTS

Financial Highlights	1
Report to Shareholders	2
Commercial Properties	9
Real Estate Management Services	18
Residential Home Building and Land Development	20
Commercial Properties by Region	22
Residential Home Building and Land Development by Region	23
Financial Summary and Analysis	24
Management's Discussion and Analysis	25
Consolidated Financial Statements	46
Corporate Governance	60
Directors and Officers and Corporate Information	64

Financial Highlights

(Millions, except per share information)	1997	1996	1995
Results of Operations			
Revenues	$ 1,506	$ 938	$ 826
Net income	109	7	(17)
Cashflow from operations	164	35	10
Financial Position			
Total assets	$ 9,145	$ 6,377	$ 4,347
Capital base and minority shareholders' interests	3,280	1,000	955
Fully diluted common share equity	2,182	418	443
Per Fully Diluted Common Share			
Cashflow from operations	$ 1.15	$ 0.04	$ (0.53)
Book value	$ 13.91	$ 8.14	$ 8.63
Closing market price	$ 23.85	$ 11.75	$ 4.60





Report to Shareholders

Overview

Based on most real estate industry forecasts, 1998 should be another very rewarding year for the real estate sector. With economic growth continuing across North America and good business fundamentals still prevailing, commercial real estate investments should generate increased returns. Downtown office properties are expected to lead this performance due to the shortage of large contiguous blocks of space in most markets. Premier well-located properties will be the principal beneficiaries of the growing demand from financial service users for technologically advanced office space. Long lead times and other barriers to new construction should also place upward pressure on rental rates for the best quality properties.

Significant progress was made throughout 1997 to provide Brookfield with a solid foundation for future growth. By more than doubling the company's capital base and strengthening each area of operation, Brookfield enters 1998 with positive earnings momentum and is well positioned to record further increases in earnings and cashflows.

Brookfield plans to acquire additional office properties provided they add value to the company's present portfolio of premier properties and will increase cashflows available to shareholders. Other opportunities currently being examined to increase returns include purchasing partnership interests, refinancing property debt and re-leasing initiatives directed at enhancing the value of the current property portfolio.

Brookfield's acquisition strategy will focus on properties located in New York, Boston, Toronto,

1998 Objectives

- Selectively acquire new office properties or partnership interests in existing joint ventures.
- Refinance long-term property debt at lower interest rates.
- Increase net effective rental rates on scheduled and buy-out lease renewals.
- Enhance tenant services to further improve Brookfield's *AAA Client Service Standards*.
- Implement property management and leasing strategies to increase long-term asset values.
- Expand Brookfield's third-party real estate management services business through growth in each of the office, facilities management, residential and retail operations.
- Redeploy capital from non-core assets and residential land holdings into commercial property activities.
- Increase home building sales to 2,400 units and improve profit margins.

Calgary, Minneapolis and Denver which complement its existing property portfolio and benefit from the company's established market presence in these cities. Particular attention will be given to the quality of life support and advanced technological systems which maintain the superior competitive position of the company's property portfolio.

By paying attention to these details, the company was able to widen operating margins and significantly increase cashflow for shareholders to $164 million or $1.15 per fully diluted share during 1997. Similar growth is expected to continue over the next two years. Based solely on the company's existing portfolio, Brookfield should increase commercial net operating income in each of the next two years leading to cashflows per share growing by 30% per annum.

John Zuccotti, Gordon Arnell and Bruce Flatt, at The Winter Garden of the World Financial Center in New York.

1997 was clearly a remarkable year for Brookfield. While the market recovery and the increased capital available to the industry were important factors in the company's success, it could not have been achieved without the extraordinary efforts of people at all levels in the organization acting on opportunities to add value to each of our business operations.

Brookfield's asset profile was reoriented during the past year through the acquisition of office properties, the recovery of capital from the company's residential land development business and the sale of non-core assets. The company's investment in commercial office properties increased by more than $2 billion to $6.4 billion. The company's balance sheet was also repositioned through the issuance of $1.7 billion of equity capital and the repayment, refinancing and extension of term on long-term property debt. Many of the initiatives taken in 1997, which are highlighted on the next few pages, will ensure cashflows continue to grow for a number of years.

Commercial Property Highlights

- Increased commercial property net operating income by $304 million to $516 million.
- Acquired ownership interests in commercial properties to add 7 million square feet to the company's net effective property interests.
- Increased Brookfield's ownership of New York-based World Financial Properties to 70% by acquiring a further 24% interest.
- Acquired rights to the Bay Wellington Tower land lease in Toronto, thereby enhancing the long-term value of this landmark property.
- Acquired a 45% interest in Gentra Inc., adding a number of quality office properties to the company's portfolio.
- Increased occupancy in the core portfolio to 98% and acquired a number of new properties with current vacancies for re-leasing. Including these properties, which are being leased into a rising rental market, the overall occupancy is now 96%.

Value Enhancement Initiatives

- Facilitated the buy-out of a significant lease in One Liberty Plaza in New York City and re-leased the space to a financial institution for 15 years.
- Started renovation of the lobby, plaza and elevators at 245 Park Avenue in New York in preparation for the re-leasing of a large contiguous block of space.
- Acquired Queens Quay Terminal in Toronto and started implementing a program to re-tenant the building and convert retail to office space.
- Negotiated a new 177,000 square foot lease with The Toronto Stock Exchange in the Exchange Tower in Toronto, facilitating the conversion of the previous trading floor to high-quality office space.
- Re-acquired 199,000 square feet of space from a tenant in Minneapolis City Center for re-leasing at higher rental rates.
- Participated in the development of a new entertainment complex in Denver to improve night-time activity in the downtown area adjacent to Brookfield's buildings in this market.
- Advanced the buildout of two master-planned residential communities five years ahead of schedule.

Real Estate Management Highlights

- Increased the total portfolio of properties under management to over 95 million square feet through growth in all areas of the management services business.
- Added a net 12 million square feet of new facilities management contracts in 300 locations throughout Canada. These contracts reinforced the jointly-

owned *Brookfield Johnson Controls'* position as the leading facilities management company in Canada.

- Acquired a company which manages 8 million square feet of properties in the residential management business, expanding these operations to 26 million square feet and making Brookfield Residential the largest operator of apartment and condominium properties in the Toronto area.
- Added a real estate services joint venture in Montreal and expanded the company's national real estate services operations with the addition of a further 5 million square feet.
- Received the BOMA International Building of the Year award for outstanding service at BCE Place in Toronto.

Property Acquisitions - 1997

- Acquired 7 million square feet of properties in 1997.

(Millions of sq. ft.)	Gross	Net
World Financial Properties Inc., New York	—	2.6
Gentra Inc., Toronto/Calgary	6.0	2.5
Exchange Tower, Toronto	1.1	0.5
Bramalea City Centre, Toronto	1.2	0.5
Queens Quay Terminal, Toronto	0.5	0.3
Colorado State Bank Building, Denver	0.4	0.2
Exchange Place, Boston	—	0.4
	9.2	7.0

Residential Home Building and Land Development Highlights

- Increased lot sales by 32% to 4,658 units compared with 3,537 units in 1996 to recover a net $76 million of capital.
- Expanded home closings by 20% to 1,955 units with plans now in place to achieve sales of 3,000 units by the year 2000.
- Recorded significantly increased sales in Florida, San Diego, Ontario and Alberta, as well as profit margin improvements of over 25% in both Calgary and Edmonton.

Steve Douglas, David Arthur and Ian Cockwell in the Lambert Galleria at BCE Place in Toronto.

- Brought 21 new projects to market including Presidential Estates in Florida, Palmia in the San Francisco Bay area, Northwood in the Southland/Los Angeles area, Crestview in San Diego, Legacy in Toronto and McKenzie Towne in Calgary.
- Simplified the operations of the residential housing business by privatizing Brookfield Homes in a share exchange for Brookfield shares.

Financial Highlights

- Increased cashflow from operations to $164 million compared with $35 million last year.
- Improved net income to $109 million compared with $7 million in 1996.
- Reduced the ratio of debt to total book capitalization from 80% to 57%, largely through the issuance of $1.7 billion of equity capital.
- Extended term and fixed interest rates on over $1 billion of long-term property debt, while eliminating all corporate debt.
- Limited the recourse of virtually all of the company's long-term property indebtedness to specific property assets.
- Reduced the average interest rate on the company's commercial property debt from 8.07% to 7.70% and expect to refinance a further $1 billion of debt in 1998 at lower interest rates.
- Introduced a new dividend policy with the payment of a $0.10 per common share semi-annual dividend in December and June of each year.

Debt Refinancings Accomplished

- Repaid an 8.7%, US$284 million 5-year loan on One Liberty Plaza in New York and refinanced the property with a 6.98%, US$275 million 10-year securitized mortgage.
- Acquired a 9.23%, US$161 million mortgage on Minneapolis City Center in Minneapolis and refinanced the property with a 6.9%, US$130 million 10-year securitized mortgage.
- Repaid a 9.83%, US$17 million mortgage on Imperial Promenade in California and refinanced the property with a 7.0%, US$25 million 7-year mortgage.
- Repaid an 8.0%, $102 million mortgage on Canada Trust Tower in Toronto and refinanced the property with a 7.07%, $120 million, 10-year mortgage bond.
- Agreed to repay a 9.25% mortgage on Exchange Place in Boston and have pre-fixed the rate at 6.95% for a 10-year refinancing to be completed in 1998.

Market Outlook

Most office property markets continue to be fuelled by economic growth and a lack of new leasable commercial space coming available for use in the near to medium term. This has resulted in substantial increases in rental rates over the past twelve months. Driven principally by the growth in the financial services sector, especially in New York, Toronto and Boston, net effective rental rates have more than doubled in Toronto and downtown Manhattan and have also increased significantly in midtown Manhattan and Boston.

Premium Office Property Net Rental Rates*

($ per square foot)	**Dec. 1997**	Dec. 1996
Midtown Manhattan	**US $37**	US $20
Downtown Manhattan	**US $25**	US $10
Toronto, Ontario	**Cdn $30**	Cdn $15
Minneapolis, Minnesota	**US $20**	US $12
Denver, Colorado	**US $13**	US $ 7
Calgary, Alberta	**Cdn $20**	Cdn $10
Boston, Massachusetts	**US $35**	US $20

**Estimated market rental rates.*

The continued reduction in long-term bond yields has also improved the outlook for real estate relative to other forms of investment. For office property owners, this has enabled properties to be re-financed at lower interest rates, thereby increasing cashflow returns and equity values. With the decline in the capitalization rates used by investors to value properties, much higher values are being attributed to premier downtown office properties.

Bill Pringle and Alan Norris at the company's McKenzie Towne development in Calgary.

The response of the capital markets to these changes have been equally pronounced. In the United States, the securitization of both the debt and equity components of real estate properties through specialized financing conduits and investment trusts have now been established as effective methods for new capital to enter the real estate industry. As a result, in both the United States and Canada, record levels of debt and equity financings were completed during 1997, with Brookfield participating actively in both markets.

Outlook

Brookfield expects its cashflow from operations to increase substantially in the next two years as a result of contractual lease increases, internally generated opportunities to increase the performance of its commercial property portfolio and growth in the company's management and home building businesses. As a result, management has a high level of confidence in reporting meaningfully improved financial results for 1998 and 1999. While real estate should fare better than most business sectors in the foreseeable future, shareholders are cautioned that growth beyond this period will be dependent on the continuation of stable financial markets.

Brookfield's board of directors and management express their sincere appreciation to the company's tenants, customers and business associates for their continued support.

We also wish to thank our many new investors for their part in making possible the public equity issues we completed in 1997.

Brookfield is a service organization and without the extraordinary efforts of its people, the company could not have achieved its 1997 goals. Special thanks are therefore due to the company's many employees whose hard work made it possible for Brookfield to look forward to the next two years with confidence in its ability to improve the company's financial results.

The company's board and senior management are firmly committed to maintaining Brookfield's pre-eminent position as an owner and provider of the highest quality office space in North America for the benefit of its tenants and shareholders.

On behalf of the board,

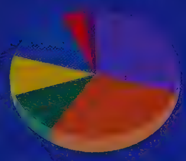
Gordon E. Arnell
Chairman and Chief Executive Officer

J. Bruce Flatt
President and Chief Operating Officer

February 9, 1998

Commercial Properties

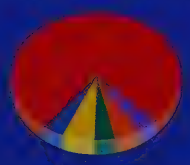
Distribution of Commercial Properties



(By square feet)

Minneapolis	11%
Denver	10%
Boston	4%

Lease Maturities



Current	4%
1998	5%
1999	4%
2000	6%
2001	4%
Beyond 2001	77%

- *55 commercial properties.*
- *32 million square feet of rental space.*
- *18 premier office properties representing 80% of the portfolio square footage and book value.*
- *Properties located in 6 core downtown markets.*
- *Property acquisitions in 1997 added 7 million square feet of net rental space.*

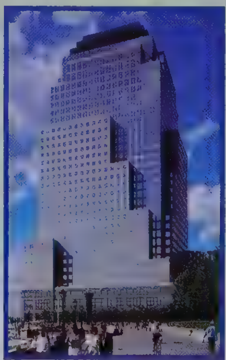
NEW YORK, NEW YORK

- Brookfield's New York portfolio consists of five major properties encompassing 9.7 million square feet of premier office space.
- Brookfield is one of the largest landlords in Manhattan and owns and manages over 10% of the Class A office space in downtown Manhattan.
- The centerpiece of the Manhattan portfolio is the 7.5 million square foot World Financial Center which ranks as one of the highest quality and most technologically advanced office property complexes in the world.
- The portfolio is 98% leased to high-credit quality tenants.

ONE WORLD FINANCIAL CENTER

TWO WORLD FINANCIAL CENTER

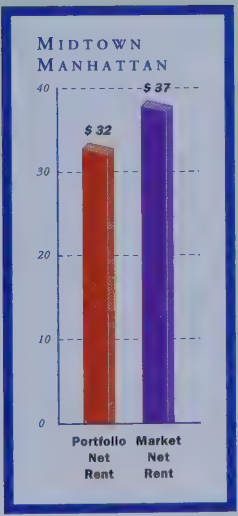
ONE LIBERTY PLAZA



FOUR WORLD FINANCIAL CENTER

245 Park Avenue

World Financial Center



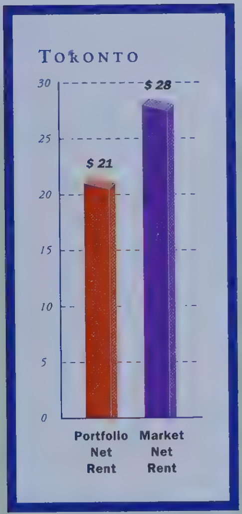
TORONTO, ONTARIO

- Brookfield's Toronto portfolio consists of 20 properties encompassing 9.1 million square feet of predominantly premier office space.
- Brookfield owns and manages 25% of the Class A office space in downtown Toronto.
- The centerpiece of the Toronto portfolio is BCE Place which is regarded as the premier office property complex in Canada.
- The vacancy rate in Class A space is 4% and rental rates in the portfolio are 30% below current market rental rates.

EXCHANGE TOWER

70 YORK STREET

QUEENS QUAY TERMINAL



320 BAY STREET

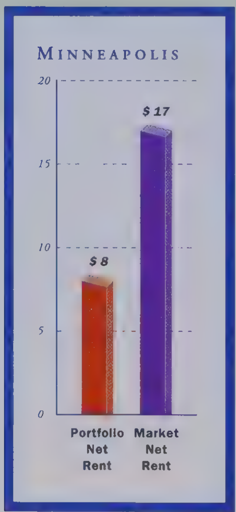
BCE PLACE
CANADA TRUST TOWER AND BAY WELLINGTON TOWER

Minneapolis/Midwest

- Brookfield's Minneapolis/Midwest portfolio consists of four properties encompassing 3.3 million square feet of premier office and urban retail space.
- Brookfield owns and manages 15% of the Class A office space in downtown Minneapolis.
- The vacancy rate in Class A space is 4% and rental rates in the portfolio are less than one-half current market rental rates.

Gaviidae Common

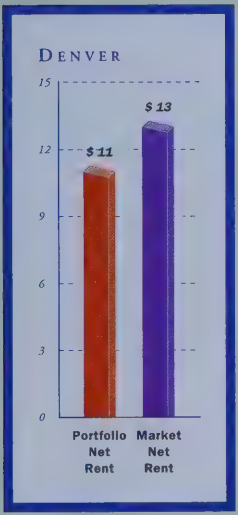
Minneapolis City Center



Dain Bosworth Plaza

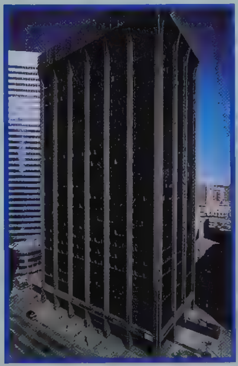
DENVER, COLORADO

- Brookfield's Denver portfolio consists of five properties encompassing 3.1 million square feet of predominantly premier office space.
- Brookfield owns and manages over 20% of the Class A office space in downtown Denver.
- The 1.8 million square foot Republic Plaza office property ranks as one of the premier office properties in downtown Denver.
- Vacancy rates have dropped to 3% in Class A space and rental rates in the portfolio are 15% below current market rental rates and substantially below rental rates which justify replacement costs.



REPUBLIC PLAZA

WORLD TRADE CENTER I AND II



COLORADO STATE BANK BUILDING

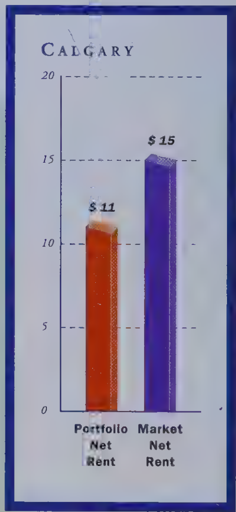
Western Canada

- Brookfield's Western Canadian portfolio consists of 15 properties encompassing 4.4 million square feet of office and retail space, predominantly in downtown Calgary.
- Brookfield recently acquired the 1.6 million square foot Fifth Avenue Place, a premier office property in downtown Calgary.
- Total occupancy of the portfolio is 95% and rental rates in the portfolio are 45% below current market rental rates.

Roslyn Building

First Alberta Place

Fifth Avenue Place



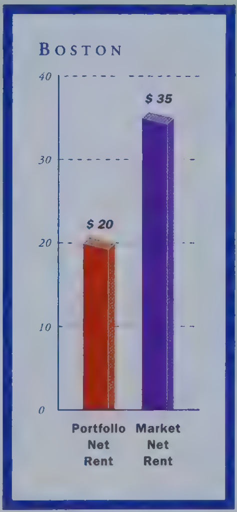
Other Properties

Brookfield also owns directly or through affiliates:

- Exchange Place Tower, a 1.1 million square foot premier office property located at 53 State Street in the heart of downtown Boston, Massachusetts;
- Imperial Promenade, a 239,000 square foot office building in Orange County, California; and
- Chicago Place, an eight-level 313,000 square foot urban retail shopping centre located on the *Magnificent Mile*, North Michigan Avenue, Chicago, Illinois.

Imperial Promenade, Santa Ana, California

Chicago Place, Chicago, Illinois



Exchange Place, Boston, Massachusetts

Real Estate Management Services

"Class AAA Service Standard"

Brookfield is committed to providing *"Class AAA Service Standard"* to all of its tenants and building owners. The objective of this program is to provide superior working environments in order for corporations and their employees to achieve excellence. In doing so, properties managed by Brookfield should attract and retain higher quality tenants and with this achieve a commensurate increase in rental rates.

"Committed to Providing Environments for Excellence"

Office Real Estate Management Services

- Local presence in markets provides economies of scale.
- Operating focus is on achieving a Class AAA Service Standard in order to provide the highest quality service.
- Services include property management, leasing, construction services and tenant retention.

Facility Management Services

- Jointly owned *Brookfield Johnson Controls* is the premier facilities manager in Canada with 35 million square feet of managed properties.
- Contracts to manage a net 12 million square feet of government properties were added during 1997.
- Currently manage 8 million square feet of properties for Canada Post Corporation.

Residential Management Services

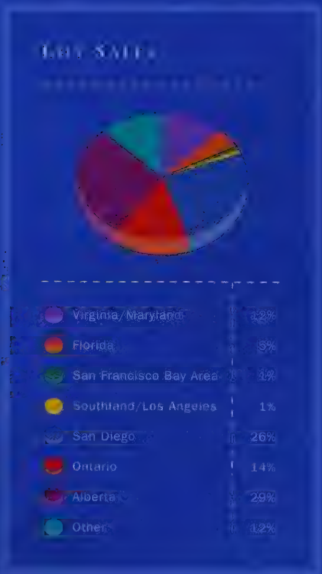
- Manage 26 million square feet of condominiums and apartments.
- Contracts to manage 9 million square feet of residential space were added in 1997.

Retail Real Estate Management Services

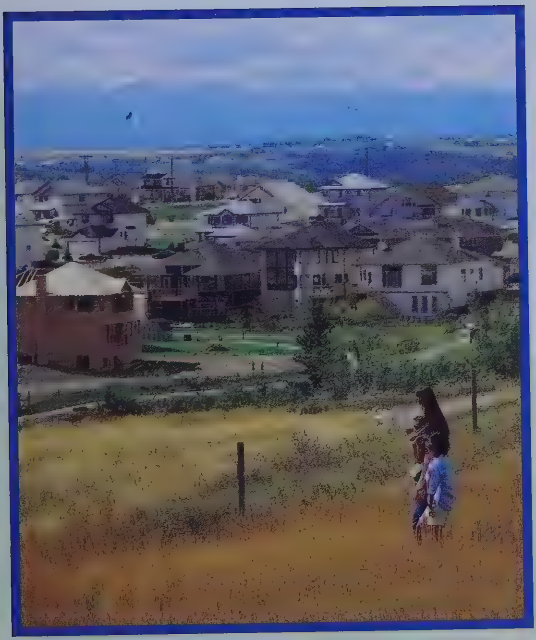
- Services include management, leasing and construction services.
- Brookfield's focus is on projects requiring value enhancement initiatives.
- Downtown retail specialty group focuses on mixed-use properties.

Residential Home Building and Land Development

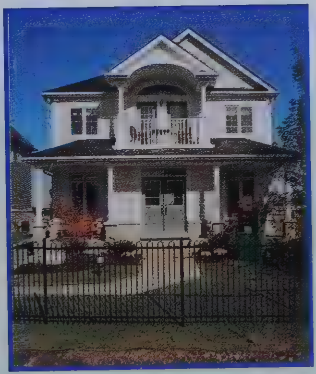
- *Operate in 7 core markets across North America.*
- *Own over 17,000 entitled residential lots.*
- *Own 8,400 acres of land for development into future master-planned communities.*
- *Over 4,000 residential housing lots sold annually.*
- *Annual home construction targetted to rise from 2,000 to 3,000 units by the year 2000.*



La Vina, Southland, California

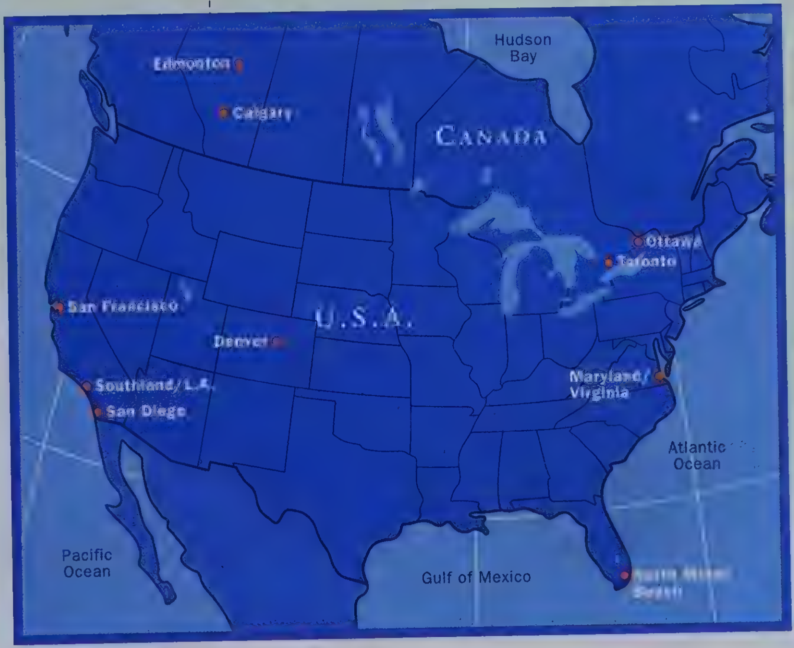


TUSCANY, CALGARY, ALBERTA



PORT UNION VILLAGE,
TORONTO, ONTARIO

BRAEMAR,
PRINCE WILLIAM COUNTY,
VIRGINIA



Commercial Properties by Region

	Number of Properties	Occupancy	Office	Retail/ Other	Net Rentable Area	Effective Ownership Interest	Brookfield's Effective Interest
		(%)	(000s of sq. ft.)	(000s of sq. ft.)	(000s of sq. ft.)	(%)	(000s of sq. ft.)
New York							
One World Financial Center	1	99	1,461	50	1,511	70	1,058
Two World Financial Center	1	99	2,455	150	2,605	70	1,823
Four World Financial Center	1	100	1,711	99	1,810	35	634
One Liberty Plaza	1	99	2,055	68	2,123	70	1,486
245 Park Avenue	1	92	1,560	58	1,618	70	1,132
	5	98	9,242	425	9,667		6,133
Toronto							
BCE Place							
Canada Trust Tower	1	99	1,127	—	1,127	40	451
Bay Wellington Tower	1	99	1,244	—	1,244	100	1,244
Heritage, Retail & Parking	2	100	197	809	1,006	74	748
Exchange Tower Block	3	94	1,394	379	1,773	95*	1,690
70 York Street	1	100	188	6	194	100*	194
Queens Quay Terminal	1	71	377	84	461	100*	461
Bramalea City Centre	1	96	73	1,100	1,173	100*	1,173
Other	10	88	1,367	992	2,359	58	1,380
	20	93	5,967	3,370	9,337		7,341
Minneapolis							
Minneapolis City Center	1	98	1,082	695	1,777	100	1,777
Dain Bosworth Plaza	1	96	593	247	840	100	840
Gaviidae Common	1	100	—	392	392	100	392
Chicago Place	1	98	—	313	313	100	313
	4	98	1,675	1,647	3,322		3,322
Denver							
Republic Plaza	1	95	1,233	549	1,782	100	1,782
World Trade Center	2	99	734	43	777	100	777
Colorado State Bank Building	1	69	415	—	415	50	208
Highland Place	1	100	140	—	140	100	140
	5	92	2,522	592	3,114		2,907
Western Canada							
Fifth Avenue Place	1	100	1,439	147	1,586	100*	1,586
First Alberta Place	1	94	281	17	298	100*	298
Londonderry Centre	1	95	—	768	768	100*	768
Other	12	93	941	797	1,738	100	1,738
	15	95	2,661	1,729	4,390		4,390
Boston							
Exchange Place	1	99	1,090	30	1,120	35	392
Other							
Imperial Promenade	1	97	239	—	239	100	239
Other	4	96	230	640	870	100	870
	5	96	469	640	1,109		1,109
	55	96	23,626	8,433	32,059		25,594
*Less: Interests of Gentra Inc.'s other shareholders in these properties							4,009
Brookfield net effective ownership interest							21,585

Residential Home Building and Land Development by Region

	Residential Building Lots			
	Home Building	Land Under Development	Land For Development	Total Lots
Maryland				
Russett Center	—	791	—	791
Villages of Marlborough	449	—	—	449
Willow Creek	238	—	—	238
Other (7 projects)	36	160	358	554
Virginia				
Braemar	529	2,311	—	2,840
Other (3 projects)	63	—	—	63
	1,315	3,262	358	4,935
Florida				
The Point at the Waterways	267	456	—	723
Presidential Estates	179	—	—	179
	446	456	—	902
San Francisco Bay Area				
Palmia	309	—	—	309
Northeast Ridge	398	168	—	566
Rush Creek	72	—	—	72
Other (2 projects)	39	—	—	39
	818	168	—	986
Southland/Los Angeles				
La Vina	257	—	—	257
Dos Vientos	100	—	—	100
Northwood	77	—	—	77
Northpark	81	—	—	81
Other (4 projects)	52	161	392	605
	567	161	392	1,120
San Diego				
Scripps Ranch	—	1,111	—	1,111
Calavera Hills	—	241	—	241
Chase Ranch	348	—	—	348
Azure Cove	41	—	—	41
Other (7 projects)	236	—	2,564	2,800
	625	1,352	2,564	4,541
Ontario				
Port Union Village	200	—	—	200
Harrowsmith	155	615	—	770
Lynde Shores	226	—	—	226
Tuscany	166	—	—	166
Fallingbrook	189	466	—	655
Other (7 projects)	280	490	1,266	2,036
	1,216	1,571	1,266	4,053
Calgary				
McKenzie West/Towne	66	438	7,245*	7,749
Tuscany	35	144	2,999*	3,178
Other (3 projects)	28	129	10,653*	10,810
Edmonton				
Twin Brooks	—	116	193*	309
Terwillegar Towne	—	73	1,614*	1,687
Other (5 projects)	—	132	7,758*	7,890
	129	1,032	30,462	31,623
Other (4 projects)	—	—	1,600*	1,600
Total Lots	5,116	8,002	36,642	49,760
*Less: Unentitled lots	—	—	32,062	32,062
Total Entitled Lots	5,116	8,002	4,580	17,698

Financial Summary and Analysis

Contents

Management's Discussion and Analysis	25
Overview	25
Asset Profile	25
Commercial Property Portfolio	26
Real Estate Management Services	34
Residential Home Building and Land Development	34
Receivables and Other	39
Liabilities and Equity	39
Results of Operations	42
Cashflow Analysis and Financial Liquidity	43
Real Estate Industry and Risks	44
Outlook	45
Management's Responsibility for the Financial Statements	46
Auditors' Report	46
Consolidated Financial Statements	47
Notes to the Consolidated Financial Statements	50

Management's Discussion and Analysis

Overview

Brookfield owns and manages a portfolio of premier North American office properties and also develops master-planned residential communities.

Commercial Properties

Brookfield's strategy is to own premier office properties in prime downtown locations of major cities in North America. Brookfield's portfolio consists of equity interests in 55 commercial properties, predominantly office buildings, containing 32 million square feet of rentable area in which Brookfield has an effective ownership interest in 22 million square feet. Of this portfolio, 18 are premier properties located in the downtown cores in six markets and represent 80% of the total square footage and carried value of Brookfield's portfolio. Brookfield aims to increase its ownership interests in properties currently owned and to acquire additional premier office properties provided they have a positive impact on the company's cashflows and net asset values.

Real Estate Management Services

Brookfield plans to continue the expansion of its management services business. In 1997, Brookfield acquired contracts to manage an additional 30 million square feet which increased the total space under management to 95 million square feet.

Brookfield's real estate management operations consist of four businesses: office property management, facilities management for single-user properties, residential condominium and apartment management and retail property management.

Residential Home Building and Land Development

Brookfield owns over 17,000 entitled residential building lots on which servicing has commenced. These lots are developed for use in Brookfield's own home building operations and for sale to other home builders. Brookfield also owns 8,400 acres of land which is being held for future development into master-planned communities once water, sewage, and other services are available and subdivision and lot entitlement plans have been approved by municipal, environmental and other regulatory authorities. Once approved and developed, these lands are expected to provide an additional 32,000 residential building lots.

Brookfield continues to reduce the level of its residential lot inventory and recover capital from this business. Shorter term building land is being acquired in order to facilitate the expansion of the company's home building operations to a level of 3,000 unit sales annually.

Home building operations, which are expected to contribute an attractive return on invested capital, are viewed as a means to generate cashflow for investment in prime commercial properties.

Asset Profile

Total assets increased to $9.1 billion compared with $6.4 billion in 1996. The increase resulted largely from the acquisition of additional equity interests in office properties during the year.

The following table shows the company's assets by book value segmented by area of operation.

Years ended December 31	1997		1996	
(Millions)	Book Value	%	Book Value	%
Commercial properties	$ 6,395	70	$ 4,301	67
Receivables and other	1,003	11	444	7
Residential home building	691	8	508	8
Residential development land	756	8	991	16
Cash and cash equivalents	300	3	133	2
	$ 9,145	100	$ 6,377	100

On a book value basis, commercial property assets represent 70% of the company's asset base. The commercial property portfolio is substantially weighted to premier downtown office properties in six North American cities, which represent 80% of the company's commercial properties. The receivables and other assets are predominantly loans on commercial real estate properties. These loans are of a short-term nature as they can be liquidated to provide funds to invest in commercial properties or to repay debt.

Residential home building and land development assets represent 16% of Brookfield's assets, down from 24% at December 31, 1996. Long-term land holdings will continue to decline as these assets are developed and capital is recovered from these assets.

Commercial Property Portfolio

The carrying value of Brookfield's commercial properties increased by 50% to $6.4 billion compared with $4.3 billion in 1996. The increase resulted principally from the acquisition of approximately 7 million net square feet of commercial properties, predominantly office properties. Overall, 80% are office properties with the balance of the commercial property portfolio being largely retail and other components of mixed-use centres. On a book value basis, Brookfield's commercial properties are located 30% in Canada and 70% in the United States. The following table provides a summary of Brookfield's commercial property portfolio by region.

	Total Net Rentable Area	Brookfield Interest	Dec. 31 1997	Dec. 31 1996
	(000s of sq. ft.)	*(000s sq. ft.)*	*(Millions)*	*(Millions)*
New York, New York	9,667	6,133	$ 3,024	$ 1,868
Toronto, Ontario	9,337	7,341	1,482	976
Minneapolis, Minnesota	3,322	3,322	646	599
Denver, Colorado	3,114	2,907	515	481
Western Canada	4,390	4,390	427	189
Boston, Massachusetts	1,120	392	156	94
Other	1,109	1,109	145	94
Total	32,059	25,594	$ 6,395	$ 4,301

The carrying value of Brookfield's interest in approximately 25 million square feet of rentable area, including properties held by Gentra Inc., is approximately Cdn$252 (US$176) per square foot, while the cost to replace the portfolio, is estimated at Cdn$390 (US$273) per square foot.

During 1997, Brookfield acquired a number of commercial properties with higher vacancy rates with the objective of leasing these properties into a rising rental rate market. Overall, the portfolio occupancy rate is now 96% with the largest vacancies in the recently acquired Exchange Tower and Queens Quay Terminal properties in downtown Toronto, and the Colorado State Bank Building in downtown Denver.

The overall portfolio has an internal operating cashflow growth rate of approximately 8% during the next two years as a result of largely contractual rental increases.

Due to the high quality of most of the properties in Brookfield's portfolio, capital expenditures will be minimal in 1998. During 1998, the only significant capital expenditure planned is the upgrading of the lobby, plaza and elevators at 245 Park Avenue in midtown Manhattan. This expenditure is estimated to be US$14 million and is being incurred to ensure the infrastructure is in place in order to attract maximum value for the re-leasing of a significant block of space which will become available in this building in 2002. In the balance of the portfolio, there are no major capital expenditures expected in the foreseeable future. As a result of the large leasing program in 1997, and the repositioning of recently acquired projects, property improvements and tenant inducements were $69 million in 1997. With the portfolio now 96% leased, tenant inducements are expected to decline in 1998 and will then level off at approximately $25 million annually. Based on current projections, Brookfield expects to achieve a 97% overall occupancy level by the end of 1998.

The following is a detailed description of the major commercial properties owned by Brookfield.

New York, New York

The World Financial Center

The World Financial Center is a 7.5 million square foot complex located in the financial district of Manhattan, adjacent to the World Trade Center. The four office towers and 299,000 square feet of retail space are connected by a winter garden, a retail concourse and a glass-enclosed atrium. Brookfield, through World Financial Properties, owns three of the four office towers as well as 100% of the retail space.

One World Financial Center

One World Financial Center is a 40-storey tower which was completed in 1985 and has a net rentable area of 1,510,987 square feet. The building is connected to the World Financial Center complex through an enclosed passageway. World Financial Properties owns a 100% leasehold interest on a ground lease with the Battery Park City Authority until June 17, 2069. The property is 99% leased and is the US headquarters of CIBC Oppenheimer as well as Dow Jones & Company Inc.

Two World Financial Center

Two World Financial Center is a 44-storey tower completed in 1987 which has over 2,605,000 square feet of rentable area including 126,000 square feet of retail space. Two World Financial Center is one of the World Financial Center buildings which houses the world headquarters of Merrill Lynch. Two World Financial Center also includes the retail area of World Financial Center and the galleria podium of the complex. World Financial Properties owns a 100% leasehold interest on a ground lease with the Battery Park City Authority until June 17, 2069. This property is almost entirely leased to Merrill Lynch until September 2013 and is occupied predominantly by Merrill Lynch and Deloitte & Touche.

Four World Financial Center

Four World Financial Center is a 34-storey tower completed in 1986 which has a net rentable area of 1,809,678 square feet. Four World Financial Center is one of the World Financial Center buildings which houses the headquarters of Merrill Lynch and is 100% leased to and occupied by Merrill Lynch. World Financial Properties owns a 51% leasehold interest on a ground lease with the Battery Park City Authority until June 17, 2069. Merrill Lynch owns a 49% leasehold interest in this property.

One Liberty Plaza

One Liberty Plaza is a 53-storey, 2,123,000 square foot office building located in downtown Manhattan adjacent to the World Trade Center in the financial district of lower Manhattan. The building was completed in 1971 as U.S. Steel's world headquarters and was occupied by Merrill Lynch as its world headquarters until its move to the World Financial Center. Since 1987, the building has undergone substantial renovation, including complete reconstruction of the lobby and plaza areas. World Financial Properties owns a 100% freehold interest in this property, which is 99% leased to tenants including the Bank of Nova Scotia, Royal Bank of Canada, Long Term Credit Bank of Japan and the legal firm of Cleary, Gottlieb, Steen & Hamilton.

245 Park Avenue

245 Park Avenue is a 44-storey office tower located in midtown Manhattan on Park Avenue at 46th Street, immediately adjacent to Grand Central Station. The building was completed in 1970 and contains 1,617,789 rentable square feet. This property is currently undergoing a complete renovation of the lobby, plaza and elevators. World Financial Properties owns a 100% freehold interest in this property which is 92% leased to tenants including Bear Stearns, Industrial Bank of Japan, Xerox Corporation and Major League Baseball.

Toronto, Ontario

BCE Place

BCE Place consists of 3,377,000 square feet of rentable commercial space comprising two high-rise office towers located in Toronto's financial core in the block bounded by Bay, Wellington, Yonge and Front Streets. A 90-foot high glass-enclosed galleria integrates the two office towers, the related retail space, the Hockey Hall of Fame and 13 other historical buildings. With direct access to Union Station, the Metro Toronto subway system and Commerce Court, BCE Place is a key point of entry to the underground pedestrian walkway system in Toronto. Tenants enjoy easy access to subway and commuter rail services. The project is within walking distance of many of Toronto's finest cultural landmarks, hotels, restaurants and recreational facilities.

Canada Trust Tower

The Canada Trust Tower is located on the southwest corner of BCE Place and is adjacent to Union Station. This 51-storey office building contains 1,127,000 square feet of rentable office space. Brookfield owns a 40% freehold interest in the Canada Trust Tower. The property is 99% leased and major tenants include Canada Trust, CIBC Wood Gundy and William Mercer.

Bay Wellington Tower

The Bay Wellington Tower is located on the northern portion of BCE Place. This 47-storey office tower contains approximately 1,244,000 square feet of rentable office space. Brookfield owns a 100% leasehold

interest with a purchase option to acquire the land lease. The property is 99% leased and major tenants include Midland Walwyn, Deloitte & Touche, Newcourt Credit, Noranda and the headquarters of the Brookfield Properties group.

Retail, Heritage Office Buildings and Parking

The retail, heritage office buildings and parking facilities are located between and beneath the Canada Trust and Bay Wellington Towers and encompass the office space in the historic buildings and 22 Front Street, which was acquired in 1997. This forms the historic and entertainment portion of BCE Place with retail on the concourse and main street levels as well as 1,450 below-grade parking stalls serving the BCE Place complex and the downtown district. This portion of the BCE Place complex contains 197,000 square feet of office and 809,000 square feet of retail and parking area. The project is 100% leased and also encompasses development rights to build a third tower at BCE Place of approximately 750,000 square feet of office space with significant infrastructure already in place.

Exchange Tower Block

The Exchange Tower Block consists of four components which comprise 1,773,000 square feet of total area, including 1,394,000 square feet of office space and 379,000 square feet of retail and parking facilities. The four components of the Exchange Tower Block are three office towers including the Exchange Tower, 320 Bay Street and 105 Adelaide. It also includes the retail and parking components of the complex.

Exchange Tower

Exchange Tower is located in Toronto's financial core at the corner of York and King Streets. The office property consists of a 1.1 million square foot office tower which is integrated with the Toronto financial core and the underground pedestrian network as a component of the Exchange Tower Block. Gentra owns a 100% freehold interest in the property with the exception of a small leasehold interest on one component of the property. The property is 93% leased and major tenants include The Toronto Stock Exchange, First Marathon Inc., Public Works Canada and Reuters Business Services.

320 Bay Street

The 320 Bay Street office building is located in Toronto's financial core at the corner of Bay and Adelaide Streets. The project consists of an 18-storey historical office building which was extensively renovated in 1990, bringing building systems up to current standards, and a new 14-storey adjacent office building. The building contains 284,000 square feet of rentable space which is integrated with the Toronto financial core and the underground pedestrian network. Brookfield holds a 100% freehold interest in the property. The project is 100% leased and Canada Trust and CIBC Mellon Trust Company are the major tenants.

105 Adelaide, Retail and Parking

These components of the Exchange Tower Block consist of 429,500 square feet of total rentable area. 105 Adelaide is a 12-storey office property located on Adelaide Street adjoining the north end of the Exchange Tower. The building was completely renovated in 1992 and contains 177,000 rentable square feet of office space and 245,500 square feet of parking facilities. Gentra owns a 55% interest in the property which is 95% leased to tenants including London Insurance and HSBC James Capel Inc.

70 York Street

The 70 York Street office building is located in Toronto's financial core at the corner of Wellington and York Streets. The project is a 17-storey office tower completed in 1991 and contains 194,000 square feet of predominantly office space which is integrated with the Toronto financial core and underground pedestrian network. Gentra holds a 100% leasehold interest in the property which is 100% leased. The major tenant is Hongkong Bank of Canada.

Queens Quay Terminal

Queens Quay Terminal is located on the waterfront in downtown Toronto's financial district. The project consists of 461,000 square feet of leaseable area including 377,000 square feet of office space and 84,000 square feet of retail space. The property also contains 72 condominium units which are owned freehold by other parties. Gentra holds a 100% leasehold interest with an option to purchase the ground lease at any time. The project is 71% leased with a major renovation and re-leasing program now underway.

Bramalea City Centre

Bramalea City Centre regional shopping centre is located in Bramalea, Ontario, a suburb of Toronto. The project consists of 1.1 million square feet of retail space, a 143-unit hotel, 73,000 square feet of office space and a 1,000 unit residential density allowance for future development. Gentra owns a 100% freehold interest in the project which is 96% leased. The project is currently undergoing a re-merchandising program which commenced subsequent to its acquisition in 1997. Its anchor tenants include Sears, The Bay and Eatons.

Minneapolis, Minnesota

Minneapolis City Center

Minneapolis City Center is located in Minneapolis on the Nicollet Mall between 6th and 7th Streets in the downtown core. The project consists of a 52-storey office tower containing 1,082,000 square feet of rentable office space, a 215,000 square foot, three-level retail centre containing 90 stores, two department stores encompassing 155,000 square feet, and a six-level 325,000 square foot parking facility for 687 vehicles. The project was completed in 1983 and the retail component was extensively renovated in 1993. The property is integrated with the company's Gaviidae Common retail centre and is also adjacent to Dayton's flagship department store. Minneapolis City Center includes the 602-room Marriott Hotel that is constructed on lands leased from the company until 2036 at a fixed minimum rental plus a percentage of gross revenue from the hotel over a base amount. Brookfield owns a 100% freehold interest in the total property. The project is 98% leased with Target Department Stores, a division of Dayton Hudson Corporation, being the largest tenant.

Dain Bosworth Plaza

The Dain Bosworth Plaza is a mixed-use office and retail development consisting of 840,000 rentable square feet in the Minneapolis financial district at 6th Street on the Nicollet Mall. The retail component consists of a 119,000 square foot Neiman Marcus department store and 70,000 square feet of other retail stores on four levels which comprise Phase II of Gaviidae Common. The 40-storey office tower, completed in 1992, consists of 593,000 square feet. The property also has 210 underground parking stalls consisting of 58,000 square

feet. Brookfield owns a 100% freehold interest in the property. The property is 96% leased, with the largest tenant being Inter-Regional Financial Group which owns Dain Bosworth, a major stock brokerage firm.

Gaviidae Common

Gaviidae Common is a 392,000 square foot, five-level retail centre in downtown Minneapolis. The property is located immediately west of the Minneapolis City Center building, and diagonally across from Dayton's department store. The project is anchored by Saks Fifth Avenue and features waterfalls and extensive natural light. Gaviidae Common is connected to the retail component of the Dain Bosworth Plaza by skyways at the second and fourth levels. The first phase contains parking for 490 vehicles consisting of 137,000 square feet and a 255,000 square foot retail area which is anchored at one end by Saks Fifth Avenue. Phase II, described above as part of the Dain Bosworth Plaza, consists of 70,000 square feet of retail stores and a 119,000 square foot Neiman Marcus store. Brookfield owns a 100% freehold interest in the retail component and a 100% leasehold interest in the Saks Fifth Avenue store. The property is 100% leased.

Denver, Colorado

Republic Plaza

Republic Plaza is located in the financial district of downtown Denver. The property consists of a 56-storey office tower containing 1,233,000 square feet of rentable office space, 45,000 square feet of rentable retail space and an underground parking facility for 200 vehicles consisting of 504,000 square feet. The property also includes an additional 1,250 above-ground vehicle parking facility. It is the largest office building in Denver and was completed in 1984. Brookfield owns a 100% freehold interest in the property which is 95% leased. Major tenants include Teachers Insurance and Annuity Association and the legal firm of Davis, Graham and Stubbs.

World Trade Center

World Trade Center is comprised of two 29-storey office towers, 1625 Broadway and 1675 Broadway, located in the financial district of downtown Denver across the street from the company's Republic Plaza property. These properties contain 734,000 square feet of rentable office space and 43,000 square feet of parking area. Brookfield owns a 100% freehold interest in the two properties which are currently 99% leased.

Colorado State Bank Building

The Colorado State Bank Building is located in the financial core of downtown Denver, adjacent to Brookfield's Republic Plaza and World Trade Center properties. The Colorado State Bank building was completed in 1971 and is currently undergoing a renovation and re-leasing program. The property contains 415,000 square feet of office space. Brookfield owns a 50% freehold interest in the property which is 69% leased to tenants including the Colorado State Bank.

Western Canada

Fifth Avenue Place, Calgary, Alberta

Fifth Avenue Place comprises a total of 1,586,000 square feet of rentable area and is comprised of two 35-storey office towers encompassing 1,439,000 square feet of rentable office space as well as 147,000 square feet of retail and underground parking located in the core of downtown Calgary. Fifth Avenue Place is

connected to the above-ground pedestrian network, was completed in 1980, and since acquisition has undergone a substantial capital investment program. Brookfield and Gentra own a 100% freehold interest in the property. The property is 100% leased with the major tenants being Norcen Energy Resources, Imperial Oil Limited and TransCanada Pipelines.

First Alberta Place, Calgary, Alberta
First Alberta Place is a 23-storey, 298,000 square foot office tower located in downtown Calgary. Gentra Inc. owns a 100% freehold interest in the property which is 94% leased. Major tenants include Hongkong Bank of Canada and Bantrel Inc.

Londonderry Centre, Edmonton, Alberta
Londonderry Centre is a regional shopping centre located in Edmonton, Alberta. The project consists of 768,000 square feet of rentable office space. Gentra Inc. owns a 100% freehold interest which is 95% leased. Major tenants include The Bay, Wal-Mart, Sport Chek and Famous Players.

Boston, Massachusetts

Exchange Place, Boston, Massachusetts
Exchange Place is a 40-storey office tower in the heart of the financial district of downtown Boston located at 53 State Street. The property consists of 1,090,000 square feet of office space and 30,000 square feet of retail and parking area. This project was completed in 1984 and incorporates the historic granite and marble Stock Exchange building with a 40-storey office tower. After year-end, World Financial Properties reached agreement to increase its ownership from 50% to a 100% freehold interest in the property, which is 99% leased to tenants such as the Fidelity Mutual Fund Group, Smith Barney and the law firms of Goodwin, Proctor & Hoar and Choate, Hall & Stewart.

Other Major Properties

Chicago Place, Chicago, Illinois
Chicago Place is located at the centre of the *Magnificent Mile* on North Michigan Avenue, a prime retail district in downtown Chicago. Chicago Place was completed in 1990 and consists of an eight-level specialty retail mall containing 313,000 square feet of rentable space, anchored by Saks Fifth Avenue. An atrium rises the full eight levels and features glass-enclosed elevators and escalators to all levels. The interior design work incorporates elements from Chicago's early history and includes major works of art. Brookfield owns a 100% freehold interest in this property which is 98% leased to tenants including Saks Fifth Avenue, Room and Board, Talbots and The Body Shop.

Imperial Promenade, Orange County, California
Imperial Promenade consists of an 11-storey suburban office tower near the Orange County Airport. The property was completed in April 1991 and contains 239,000 square feet of rentable area. The project features a water garden and contains 742 parking stalls. Brookfield owns a 100% freehold interest in this property which is 97% leased to tenants such as Deloitte & Touche, NME Hospitals and The Austin Company.

Lease Maturities and Market Overview

Approximately 5% of the total commercial property portfolio's leases mature in each of the next four years. The lease maturity of Brookfield's portfolio is as follows:

Lease Maturity Schedule

(Thousands of square feet)	Currently Available	1998	1999	2000	2001	2002 & Beyond	Total Leaseable Area
New York, New York	198	122	47	73	41	9,186	9,667
Toronto, Ontario	584	790	335	699	401	6,528	9,337
Minneapolis/Midwest	69	376	57	173	50	2,597	3,322
Denver, Colorado	195	168	436	306	341	1,668	3,114
Western Canada	187	155	234	485	406	2,923	4,390
Boston, Massachusetts	16	8	43	184	25	844	1,120
Other	44	117	51	73	82	742	1,109
Total	1,293	1,736	1,203	1,993	1,346	24,488	32,059
Percentage of total	4%	5%	4%	6%	4%	77%	100%

Rental Rate Renewal Schedule

As a result of a shortage of high-quality office space, rental rates rose during the past year, and, in all but one sub-market, are now higher than the average portfolio rents. The only properties where average rental rates are greater than the current market is in downtown Manhattan, where Merrill Lynch has a lease above current market rates on approximately 4 million square feet of space. However, due to the 16-year term on this lease and the high-credit quality of the tenant, this does not pose any leasing risk for the company.

The following table compares the average net rents in Brookfield's portfolio to estimated current market rents for similar quality space and services by region:

Region	Currency	Average Lease Term	Average Net Portfolio Rents	Est. Current Net Market Rents*
		(Years)	*(Per sq. ft.)*	*(Per sq. ft.)*
Midtown Manhattan	US $	7	$ 32	$ 37
Downtown Manhattan				
World Financial Center	US $	14	33	25
One Liberty Plaza	US $	10	25	25
Toronto	Cdn $	6	21	28
Minneapolis	US $	6	8	17
Denver	US $	5	11	13
Western Canada	Cdn $	5	11	15
Boston	US $	7	20	35

** Estimated current net market rent for similar quality space and services in the same market.*

Real Estate Management Services

Brookfield manages over 95 million square feet of rental space in eight core markets across North America. The distribution of this portfolio by market and type of property is as follows:

(Thousands of square feet)	Office Properties	Retail Properties	Commercial & Industrial Properties	Residential Properties	Facilities Management	Total
Ottawa/Montreal	1,300	1,500	350	—	13,200	16,350
Toronto	12,100	2,200	—	25,000	5,400	44,700
Calgary/Regina	6,100	1,100	500	400	4,000	12,100
Vancouver	1,400	1,200	400	800	2,100	5,900
Minneapolis	1,700	1,100	—	—	—	2,800
Denver	2,900	50	—	—	—	2,950
Boston	1,090	30	—	—	—	1,120
New York	9,200	400	—	—	—	9,600
Total	35,790	7,580	1,250	26,200	24,700	95,520

Brookfield's real estate management services operations continued to expand during the year, principally through growth in the facilities and residential management businesses, the acquisition of additional office and retail property management contracts and the expansion of services provided to existing customers.

Brookfield endeavours to provide the highest standard of service to its clients and tenants. This entails each employee striving to achieve the highest standard of service possible in all dealings with tenants. The objective of this program is to provide superior working environments in order for corporations and their employees to achieve excellence. In doing so, Brookfield endeavours to attract and retain higher quality tenants to the properties it manages, and with this achieve a commensurate increase in rental rates.

Building on the recent success in expanding the real estate management business, Brookfield is planning for further growth initiatives in 1998.

Residential Home Building and Land Development

Brookfield's residential home building and land development operations are located in seven major markets across North America. Canadian properties are located in Ontario and Alberta. United States properties are located in Virginia/Maryland, Florida, the San Francisco Bay Area, Southland/Los Angeles and San Diego/Riverside.

The aggregate book value of Brookfield's residential land under or held for future development is $756 million. Brookfield also has $691 million invested in homes and entitled building lots under sales contracts or held for sale in the near term. An analysis of the investment in residential land under or held for future development is as follows:

(Millions)	Land Under Development	Land Held for Development	Total
Virginia/Maryland	$ 77	$ 9	$ 86
Florida	82	—	82
San Francisco Bay Area	25	—	25
Southland/Los Angeles	36	41	77
San Diego/Riverside	169	68	237
Ontario	34	25	59
Alberta	66	92	158
Other	26	6	32
Total	$ 515	$ 241	$ 756

Brookfield's housing operations are currently concentrated in 26 projects which are under active development. Specific information about these projects which provide developed lots to Brookfield's home building operations and lots for sale to other builders is set out below:

Virginia/Maryland

The Russett Center project is a master-planned residential community designed for over 3,000 housing units on 613 acres located in Anne Arundel County, midway between the cities of Baltimore and Washington, D.C. The community currently features a variety of recreational facilities, a major shopping centre and other amenities such as a family complex, library and day-care centre. The project is fully entitled and has three phases.

The Villages of Marlborough is part of a master-planned community that includes a golf course and other recreational amenities. Located in Prince George's County, Maryland, it is approximately seven miles east of the Washington Beltway and 17 miles from downtown Washington. The project includes townhouses, single-family homes and condominiums. The remaining land is currently designed to yield 361 condominium and townhouse units and 88 single-family lots. Brookfield has sold 1,351 lots to date in this project.

Willow Creek is located in the town of Clinton, Maryland, 18 miles southeast of Washington National Airport. This project's land-use plan was modified in 1995 to broaden its marketability and to accelerate lot absorptions. The current project configuration includes 238 single-family lots with lot widths varying from 45 feet to 75 feet.

Braemar is a master-planned community in Prince William County, Virginia, approximately 22 miles west of the Washington Beltway, that currently features large areas of open space, spectacular vistas, extensive recreational facilities, schools and shopping. The land-use plan includes single-family units, townhouses, condominium and higher density multi-family type units in a zoned residential area with

2,840 lots and 181,000 square feet of commercial space remaining. During 1997, a lot sale program with two national builders commenced and the project amenities were enhanced.

Florida

The Point at the Waterways, Aventura, consists of five condominium towers with 723 units to be completed and sold. The typical unit square footage within the buildings range between 2,300 and 3,000 square feet with the ability to combine units. The buildings have an unobstructed view of the Atlantic Ocean from virtually every unit. The first of the Atlantic series, Atlantic II, as well as the North Tower, are now built and occupied, and construction of the second tower of the Atlantic series, Atlantic III, will begin in 1998.

Presidential Estates is a 179-unit single-family in-fill golf course development in Aventura County, Florida. The golf course has been redesigned and sold to a golf course operator and the housing units are being constructed by Brookfield and one other home builder.

San Francisco Bay Area

Palmia is a 309-unit fully-entitled in-fill development in San Jose, California which has convenient access to major employment centres, in particular Silicon Valley, which has added over 60,000 new professional jobs over the last 24 months.

Northeast Ridge is a 228-acre master-planned residential community with views of San Francisco, and includes a 6.5-acre park and 566 units in three separate neighbourhoods connected by roads, bike lanes and hiking trails. The project is located on San Bruno Mountain and borders San Bruno State Park. Phase I infrastructure is complete and home sales began on condominium and townhome units in 1997.

Rush Creek consists of 72 remaining estate homes in a wooded setting abutting a protected wetlands area in North Marin County. Of the total 390 acres, 90 acres are being developed with the rest remaining open space. Brookfield has sold 16 units in this project to date.

Southland/Los Angeles

La Vina is a 220-acre gate-guarded residential community near Los Angeles with outstanding views. Master grading and model home construction have been completed and 257 units remain in this project. The project borders San Gabriel Mountain and is 11 miles from downtown Los Angeles and three miles from Pasadena. Three product types are being constructed and 12 homes have been sold by Brookfield to date.

Dos Vientos is a 100-unit single-family development which is part of a new master-planned community located in the city of Thousand Oaks, approximately 40 miles west of downtown Los Angeles. The property benefits from being adjacent to permanent open space, trails and larger lot sizes.

Northwood is a 215-unit development which is located in the city of Irvine. There are currently 77 units in the project which is built around a traditional Village Green located in the heart of the project and includes amenities such as schools, public parks and a child-care centre.

Northpark is an 81 single-family unit project which is part of the Valencia master-planned community and is approximately 35 minutes north of downtown Los Angeles. Valencia is a primary suburban alternative to those who work in downtown Los Angeles or the San Fernando Valley.

San Diego/Riverside

Scripps Ranch is a 1,200-acre residential master-planned community with 1,111 remaining entitled lots which will be developed and sold over the next three years. Scripps Ranch is located in the foothills of the north-central San Diego metropolitan area and is bounded on the south by Miramar Lake. The property is 16 miles north of downtown San Diego along the Interstate 15 corridor and is the largest fully-entitled land parcel within the city limits of San Diego.

Calavera Hills is a 192-acre planned development located in the city of Carlsbad and is approximately two miles from the ocean and 30 miles north of San Diego. The project is fully entitled with Brookfield holding 241 single-family units divided between three separate villages.

Chase Ranch is a 228-acre master-planned development located in the City of Corona, County of Riverside, approved for 888 units and a seven-acre community park. All required streets and infrastructure to the site are complete and provide freeway access to Interstate 15. There are 348 remaining entitled lots in the project.

The Azure Cove project is a 41-acre site entitled for 72 single-family units within the Aviara master-planned community in Carlsbad. Construction of model homes and residential development work was completed in 1997 and 41 homes remain to be completed and sold in 1998.

Ontario

The Port Union Village project consists of 75 acres originally comprising 594 units of single-family, semi-detached and townhouse units, as well as a school site, parkland and waterfront trails. The site is situated on Lake Ontario, adjacent to the Centennial Creek Valley parklands and is easily accessed by Highway 401. There are 200 remaining entitled lots in this project.

Harrowsmith is situated in the City of Oshawa, east of Toronto. Harrowsmith is an ongoing project, started in 1987, which will continue to be developed over the next five years. This award-winning community has developed 45 and 50-foot lots featuring fully detached two-storey single-family homes. The latest phase offers a selection of housing products with servicing completed on 155 housing lots. In total, there are 770 remaining entitled lots in the project.

Lynde Shores is a 122-acre development situated in the town of Whitby adjacent to Lake Ontario and the Lynde Marsh. Brookfield plans to construct a combination of single-family and townhome units which will offer attractive views, convenient access to local amenities, and hiking trails. The project has 226 remaining entitled lots.

The Tuscany project has 166 remaining single-family units for sale and is located in Maple, Ontario. Development work is complete and 41 homes were sold by Brookfield during 1997.

The Fallingbrook project consists of housing lots which are located in the Township of Cumberland, approximately seven miles east of downtown Ottawa. Fallingbrook South Community has a full range of residential, industrial and commercial development. There are 655 fully-entitled housing lots under development.

Alberta

McKenzie West/Towne is located in the McKenzie community of southeast Calgary on the east side of Deerfoot Trail. The project is fully entitled and includes approximately 2,400 acres which will be developed into over 7,000 building lots. The project is a neo-traditional development and has 20 years of lot development capabilities. The project was opened in late 1995 with a town centre, commercial development and town square. There are 504 units currently under development.

Tuscany is located in northwest Calgary and consists of 852 acres which is being developed into over 3,000 building lots over the next 15 years. The project is fully entitled and forms part of a planned community with attractive city and mountain views. There are 179 units currently under development.

Twin Brooks is located in south Edmonton and features amenities which include natural ravines, a storm water lake and a central recreation area. This project has recorded the largest volume of sales in the Edmonton area over the last four years.

Terwillegar Towne is a 400-acre development located in south Edmonton which opened in late 1997. This project will feature many of the traditional design concepts and elements incorporated into the McKenzie Towne development.

Brookfield's home building operations currently construct and sell approximately 2,000 homes annually. Sales volumes and commitments for future homes were increased in most areas of operation during 1997. Total home sales were 1,955 compared with 1,628 in 1996, a 20% increase as detailed below. Further home sales growth is expected to be derived largely from the expansion of the company's California and Ontario home building operations. Sales volumes by number of homes and total dollar volumes are as follows:

	1997			1996		
	# of Units	**Sales**	**Average Home Price**	# of Units	Sales	Average Home Price
		(Millions)	*(Thousands)*		*(Millions)*	*(Thousands)*
Virginia/Maryland	**417**	**$ 82**	**$ 197**	465	$ 85	$ 182
Florida	**241**	**99**	**411**	137	92	676
San Francisco Bay Area	**40**	**24**	**600**	44	34	773
Southland/Los Angeles	**40**	**13**	**325**	—	—	—
San Diego/Riverside	**381**	**105**	**276**	238	80	336
Ontario	**419**	**83**	**198**	285	51	179
Alberta	**259**	**37**	**143**	238	32	133
Other	**158**	**17**	**108**	221	35	159
Total	**1,955**	**$ 460**	**$ 235**	1,628	$ 409	$ 251

RECEIVABLES AND OTHER

Through Gentra Inc., Brookfield provides bridge financing to other property owners. The inventory of loans receivable and real estate related financial securities are predominantly secured by commercial real estate and can be liquidated if required to fund additional investment in commercial properties. Until such time, the surplus funds are being deployed in financial assets to earn returns commensurate with the risk taken. The receivables and other assets are segregated below into the following categories:

(Millions)	1997	1996
Secured real estate mortgages	$ 51	$ —
Real estate loans and receivables	508	104
Non-core real estate assets	176	134
Prepaids and other assets	268	206
	$ 1,003	$ 444

LIABILITIES AND EQUITY

Brookfield's $9.1 billion of assets held at December 31, 1997 were financed with property debt, minority shareholders' interests, convertible debentures and shareholders' equity. Brookfield's net consolidated debt to total consolidated book capitalization was 57% at December 31, 1997 compared with 80% last year. The following table summarizes Brookfield's capital structure at December 31, 1997:

(Millions)	1997	1996
Long-term commercial property debt	$ 4,357	$ 3,354
Residential construction financing	577	707
Notes and shareholder advances	624	1,105
Accounts payable	307	211
	5,865	5,377
Minority shareholders' interests	772	216
Shareholders' equity and convertible debentures	2,508	784
Total	$ 9,145	$ 6,377

Long-Term Commercial Property Debt

Total long-term commercial property debt was $4.4 billion at December 31, 1997. This increased during the year as a result of the acquisition of additional office properties, offset by a number of refinancings of debt secured by properties at lower amounts. Of the commercial property debt, 95% is recourse only to specific properties with fixed-rate financing features, thereby reducing the overall financing risk to the company. The average interest rate at December 31, 1997 was 7.7%, down from 8.07% in 1996. Long-term property debt maturities as at December 31, 1997 are as follows:

(Millions)	Weighted Average Interest Rate at Dec. 31, 1997	1998	1999	2000	2001	2002	2003 & Beyond	1997 Total	1996 Total
Commercial properties	7.70%	$493	$84	$95	$115	$93	$3,477	$4,357	$3,354

Brookfield's objective is to refinance property debts in order to reduce the interest rates charged, or to extend the maturity date of the debt. The 1998 maturities represent mortgages on two properties which are currently in the process of being refinanced on a non-recourse basis. The largest property mortgages and details on these mortgages are as follows:

Commercial Property	Location	Interest Rate (%)	Maturity Date	Brookfield Proportionate Mortgage Share	Mortgage Details
				(Millions)	
Exchange Place*	Boston	9.25	1998	$ 145	Non-recourse
Bay Wellington Tower	Toronto	6.00	1998	275	Recourse
320 Bay Street	Toronto	8.32	2002	34	Recourse
One World Financial Center*	New York	8.89	2003	453	Non-recourse
Fifth Avenue Place	Calgary	9.04	2003	93	Non-recourse
Imperial Promenade	California	7.00	2004	36	Non-recourse
Exchange Tower	Toronto	7.61	2005	74	Non-recourse
245 Park Avenue*	New York	8.34	2006	292	Non-recourse
Republic Plaza	Denver	8.00	2006	275	Non-recourse
One Liberty Plaza*	New York	6.98	2007	275	Non-recourse
Canada Trust Tower	Toronto	7.07	2007	120	Non-recourse
Dain Bosworth/Gaviidae	Minneapolis	7.61	2007	135	Non-recourse
Minneapolis City Center	Minneapolis	6.90	2007	187	Non-recourse
Bramalea City Centre	Toronto	11.13	2008	33	Non-recourse
Two World Financial Center*	New York	6.91	2013	907	Non-recourse
Four World Financial Center*	New York	6.95	2013	435	Non-recourse
Other property mortgages				588	
Total commercial mortgages				$ 4,357	

**Reflects Brookfield's proportionate share.*

Residential Construction Financing

Residential construction financing relates to construction and development loans which are repaid from the sales proceeds from building lots, single-family and condominium homes. As new homes are constructed, further loan facilities are arranged on a rolling basis. Total residential housing debt at December 31, 1997 was $577 million compared with $707 million in 1996.

Notes and Shareholder Advances

Notes and shareholder advances were $624 million at December 31, 1997, which declined by $481 million during the year, largely as a result of debt repaid related to EdperBrascan's participation in three of the four public equity issues completed by the company during 1997. $225 million of shareholder loans bear interest at floating rates which are drawn under a five-year termable revolving facility. US$150 million is convertible at either party's option into a fixed-rate financing at 9.75% repayable in 2015. The balance of $399 million will be repaid largely from the proceeds generated from the sale of residential land over the next five years.

Minority Shareholders' Interests

Minority shareholders' interests provide Brookfield with an additional source of long-term capital because of the perpetual nature of these instruments. The following table details the components of Brookfield's minority shareholders' interests as at December 31, 1997 and 1996:

(Millions)	% Ownership	1997	1996
Participation by minority shareholders in the common equity of subsidiaries			
Carma Corporation	23	$ 12	$ 18
Gentra Inc.	55	193	—
Brookfield Management Services	30	28	26
Brookfield Homes	—	—	15
		233	59
Perpetual preferred shares of subsidiaries owned by other shareholders			
Carma Limited	—	102	102
Brookfield Homes	—	55	55
Gentra Inc.	—	382	—
		539	157
Total		$ 772	$ 216

Minority shareholders' interests increased by $556 million during the year largely as a result of the acquisition and consolidation of Gentra Inc.

Shareholders' Equity and Convertible Debentures

Shareholders' equity and convertible debentures increased to $2.5 billion at December 31, 1997 compared with $784 million at December 31, 1996. This increase reflects the completion of four public common share equity issues totalling $1.6 billion, as well as $100 million of shares issued on the acquisition of shares of Brookfield Homes Ltd. and Gentra Inc. Retained earnings increased by $11 million due to income being retained in excess of dividends paid out.

Shareholders' equity includes $366 million of perpetual preferred shares of which $225 million held by EdperBrascan have exchange features which permit them to be tendered as currency in subscribing for common shares, at the then market price, under a share offering by the company.

The company also has $300 million of subordinated convertible debentures outstanding and 133 million issued and outstanding common shares, with a fully-diluted book value per common share, as at December 31, 1997 of $13.91. The market capitalization of Brookfield's equity base, including convertible debentures, was $4 billion at December 31, 1997.

Results of Operations

Cashflow from operations increased to $164 million in 1997 compared with $35 million in 1996. Net income was $109 million compared with $7 million in 1996. A summary of the principal components of the company's operating results follows:

(Millions)	1997	1996	% Change
Commercial Property Operations			
Rental revenues	$ 845	$ 363	133
Expenses	329	151	118
	516	212	143
Residential Home Building and Land Development			
Home and lot sales	635	544	17
Expenses	588	513	15
	47	31	52
Other Income	26	31	(16)
	589	274	115
Expenses			
Interest	329	175	88
Administrative and development	62	52	19
Minority shareholders' interest	34	12	183
	425	239	78
Cashflow From Operations	164	35	369
Depreciation and amortization	43	27	
Taxes and other provisions	12	1	
Net Income	$ 109	$ 7	

Commercial Property Operations

Rental revenues received from commercial property operations increased 133% to $845 million, leading to a 143% increase in net commercial property operating income in 1997. This was a result of the acquisition of a 46% interest in World Financial Properties in late 1996, which was increased to 70% in 1997, as well as the acquisition of 45% of Gentra Inc. and other office properties during 1997. In addition, higher average occupancy levels, an increase in net effective rental rates on space re-leased and contractual step-ups in existing leases in the core portfolio, also contributed to the increase in rental revenues and net operating income. As the balance of the company's property portfolio is leased, free-rent periods expire and contractual increases in rental rates occur, rental contributions are projected to increase annually over the next two years.

Residential Home Building and Land Development

Residential home building and land development revenues for the 12 months ended December 31, 1997 increased 17% to $635 million, leading to a 52% increase in the contribution from the residential home building and land development operations. Total lot sales for 1997 were 4,658 units compared with 3,537 units in 1996. Total home sales were 1,955 for the year compared with 1,628 in 1996. The increase in sales levels for both lots and homes was the major factor for the increase in the contribution from the residential home building and land development business which reported $47 million of income contribution for the 12 months ended December 31, 1997 compared with $31 million in 1996.

The breakdown by region of the lot and home sales is as follows:

	Lot Sales			Home Sales		
(Units)	1997	1996	% Change	1997	1996	% Change
Virginia/Maryland	578	680	(15)	417	465	(10)
Florida	241	137	76	241	137	76
San Francisco Bay Area	41	45	(9)	40	44	(9)
Southland/Los Angeles	40	—	100	40	—	100
San Diego/Riverside	1,218	818	49	381	238	60
Ontario	669	402	66	419	285	47
Alberta	1,334	1,234	8	259	238	9
Other	537	221	143	158	221	(29)
	4,658	3,537	32	1,955	1,628	20

The Virginia and Maryland markets were slower with housing sales at 417 units compared with 465 units in 1996. In Florida, 206 condominium units were closed in the North Tower project at The Point at the Waterways condominium project. In California, lot sales increased 51% and housing sales increased 64% mainly due to the expansion of operations in both Southland and San Diego. In the Greater Toronto and Ottawa markets, affordability continues to be at the highest level experienced since the 1960s, leading to increased lot and home closings. In Alberta, Brookfield recorded an 8% increase in lot sales and a 9% increase in housing sales as this market continued to record strong results.

Expenses

No interest was capitalized on commercial rental properties during 1997 or 1996. Net interest capitalized on home building and land development, which is capitalized during development and expensed as homes and lots are sold, was reduced to $3 million for 1997 compared with $10 million in 1996.

Administrative and development costs increased due to the expansion of the company's property management business and the acquisition of Gentra. These costs are expected to decline over the next few years as operations in both Canada and the United States are rationalized and further efficiencies are attained.

Cashflow Analysis and Financial Liquidity

For the year ended December 31, 1997, funds generated from operations increased by $129 million to $164 million or $1.15 per common share on a fully-diluted basis.

During 1997, Brookfield repaid its corporate bank debt and refinanced a substantial number of property mortgages resulting in 95% of the long-term debt having fixed-rate terms and being non-recourse as at December 31, 1997. The overall debt level declined to 57% from 80% of total capitalization.

Brookfield has a commitment to acquire a 35% proportionate interest in Exchange Place in Boston for $145 million. There are no other material cash obligations other than to fund interest and principal repayments on its debt and dividends declared on its preferred and common shares. The company recently introduced a $0.20 annual dividend on its common shares. Brookfield's financial assets as well as future cash recoveries from its residential land development operations are also available to reduce shareholder and mortgage debt levels as well as invest in additional commercial real estate properties should attractive opportunities arise.

Real Estate Industry and Risks

The recent recovery in commercial real estate rental rates has been fuelled by sustained economic growth during the past five years combined with a lack of new supply of leasable commercial space. National vacancy rates for Class A downtown office space in both Canada and the United States have declined steadily over the past year. This has resulted in an increase in rental rates for office space in most major financial centres in both Canada and the United States.

In the residential home building and land development businesses, markets have also strengthened as interest rate reductions have increased affordability to the highest level in decades.

The real estate capital markets have also undergone a transformation over the past five years. In both the United States and Canada, the debt securitization market and increased demand for real estate investment trusts have provided additional sources of financing to the real estate industry. The real estate sector has also benefitted from the perceived undervaluation of real estate assets relative to investments in other sectors.

While the outlook for the real estate industry is positive, there are a number of risks associated with the business.

Interest Rates

Interest rates affect the profitability of commercial properties, residential home building and land development. Interest paid on mortgages secured by commercial properties represent a significant cost in the ownership of properties. As a result, the company has fixed a substantial amount of its financing costs. Interest rates also have an important impact on investor attitudes. The level of interest rates influences the capitalization rates paid by investors for commercial properties. Interest rates can also affect the ability of consumers to afford new homes. As a result, an increase in interest rates tends to negatively impact the company's operations.

Lease Maturities

Brookfield currently has 4% of its commercial property space available for leasing, and approximately 5% maturing in each of the next four years. While this number is not large in proportion to the total portfolio, and portfolio rental rates are on average below market rates, if market rental rates at the time of rollover are less than rental rates currently in place, rental cashflows would decline.

Consumer Confidence

The North American economy affects all aspects of the real estate business. If a disruption in economic growth occurs, this will affect the demand for office space, and hence the rental rates achieved in the company's property portfolio. In the home building and land development business, a decline in economic growth would cause decreased consumer confidence which could affect the volume of housing sales as well as the pricing of residential lots and homes.

Year 2000

The implications of the year 2000 on the company's computer-based systems are currently being addressed, with the assessment of the potential impact to be completed by April 1998. This assessment involves a review of not only computer systems used to maintain accounting and administrative functions, but more importantly, those systems which operate our facilities and which directly impact our customers.

The plan also includes working with suppliers and customers to ensure no business disruption occurs. To date, the assessment has yielded no significant issues or contingent liabilities associated with the year 2000.

Outlook

Management is confident that the company's financial performance will continue to improve in 1998. Based on current economic conditions, total cashflow from operations is expected to almost double in the next two years through increased returns obtained from the company's present property portfolio, the potential for property acquisitions, and the company's growing management and home building businesses.

Steven J. Douglas
Senior Vice President and Chief Financial Officer

Management's Responsibility for the Financial Statements

The consolidated financial statements and management's financial analysis and review contained in this annual report are the responsibility of the management of the company. To fulfil this responsibility, the company maintains an appropriate system of internal controls to ensure that its reporting practices and accounting and administrative procedures are appropriate, within reasonable costs, and provide reasonable assurance that relevant and reliable financial information is produced. The consolidated financial statements have been prepared in conformity with generally accepted accounting principles and, where appropriate, reflect estimates based on management's best judgement in the circumstances. The financial information presented throughout this annual report is consistent with the information contained in the consolidated financial statements.

Deloitte & Touche, the independent auditors appointed by the shareholders, have audited the consolidated financial statements in accordance with generally accepted auditing standards to enable them to express to the shareholders their opinion on the consolidated financial statements. Their report as auditors is set out below.

The consolidated financial statements have been further examined by the board of directors and by its audit committee which meets regularly with the auditors and management to review the activities of each. The audit committee, which is comprised of four directors who are not officers of the company, reports to the board of directors. The role of the audit committee is described in more detail on page 62 of this report.

J. Bruce Flatt
President and Chief Operating Officer

Steven J. Douglas
Senior Vice President and Chief Financial Officer

February 9, 1998

Auditors' Report

To the Shareholders,

We have audited the consolidated balance sheets of Brookfield Properties Corporation as at December 31, 1997 and 1996 and the consolidated statements of operations, retained earnings and contributed surplus, and cashflow for the years then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at December 31, 1997 and 1996 and the results of its operations and the changes in its financial position for the years then ended in accordance with generally accepted accounting principles.

Deloitte & Touche
Chartered Accountants

Toronto, Canada
February 9, 1998

CONSOLIDATED BALANCE SHEET

December 31 (Millions)	Note	1997	1996
Assets			
Commercial properties	2	$ 6,395	$ 4,301
Residential home building		691	508
Residential development land	3	756	991
Receivables and other	4	1,003	444
Cash and cash equivalents		300	133
		$ 9,145	$ 6,377
Liabilities			
Long-term commercial property debt	5	$ 4,357	$ 3,354
Residential construction financing	6	577	707
Notes and shareholder advances	7	624	1,105
Accounts payable		307	211
		5,865	5,377
Capital Base and Minority Shareholders' Interests			
Minority shareholders' interests	8	772	216
Subordinated convertible debentures	9	300	—
Shareholders' equity	10	2,208	784
		3,280	1,000
		$ 9,145	$ 6,377

On behalf of the board,

Gordon E. Arnell
Director

David A. Lewis
Director

Consolidated Statement of Operations

Years ended December 31 (Millions)	1997	1996
Revenues		
Commercial property operations	$ 845	$ 363
Residential home building and land development	635	544
Other income	26	31
	1,506	938
Expenses		
Commercial property operations	329	151
Residential home building and land development	588	513
Interest	329	175
Administrative and development	62	52
Minority shareholders' interests	34	12
	1,342	903
Cashflow From Operations	164	35
Depreciation and amortization	43	27
Taxes and other non-cash provisions	12	1
Net Income	$ 109	$ 7
Net Income (Loss) Per Basic and Fully Diluted Share	$ 0.67	$ (0.43)

Retained Earnings and Contributed Surplus

Years ended December 31 (Millions)	1997	1996
Beginning of Year – retained earnings and contributed surplus	$ 155	$ 177
Net income	109	7
Capital distributions		
Share issue costs	(39)	—
Convertible debenture interest	(16)	—
Dividends paid on preferred shares	(28)	(29)
Dividends paid on common shares	(13)	—
End of Year – retained earnings and contributed surplus	$ 168	$ 155

Consolidated Statement of Cashflow

Years ended December 31 (Millions)	1997	1996
Operations		
Cashflow from operations	$ 164	$ 35
Recovery from residential home building and land development	588	549
Investment in residential home building and land development	(512)	(496)
	240	88
Financing Activities		
Net long-term debt (repaid) arranged	(443)	81
Shareholder advances (repaid) arranged	(481)	301
Convertible debentures issued	300	—
Common shares issued, net of issue costs	1,349	—
Minority shareholders' interests	(38)	26
Cashflow from financing activities	687	408
Investment Activities		
Commercial property improvements and tenant inducements	(69)	(38)
Acquisition and disposition of real estate (net)	(537)	(412)
Other investments and liabilities	(97)	66
Cashflow used in investments	(703)	(384)
Capital Distributions		
Convertible debenture interest	(16)	—
Preferred share dividends	(28)	(29)
Common share dividends	(13)	—
	(57)	(29)
Increase in cash resources	167	83
Opening cash and cash equivalents	133	50
Closing cash and cash equivalents	$ 300	$ 133

NOTE 1: SIGNIFICANT ACCOUNTING POLICIES

(a) General

The consolidated financial statements are prepared in accordance with generally accepted accounting principles as prescribed by the Canadian Institute of Chartered Accountants and the company's accounting policies and its financial disclosure are substantially in accordance with the recommendations of the Canadian Institute of Public Real Estate Companies.

(b) Principles of Consolidation

The consolidated statements of operations, retained earnings and contributed surplus and cashflow and the corresponding note disclosure have been presented for the years ending December 31, 1997 and 1996.

The consolidated financial statements include:

(i) the accounts of all subsidiaries of the company including its commercial property operations and home building subsidiaries, Gentra Inc. ("Gentra"), Brookfield Management Services Ltd. ("Brookfield Management"), and Carma Corporation ("Carma"); and

(ii) the accounts of all incorporated and unincorporated joint ventures and partnerships to the extent of the company's proportionate interest in their respective assets, liabilities, revenue and expenses, including the company's investment in World Financial Properties Inc. ("World Financial Properties").

The company's ownership interests in operating entities which are not wholly-owned are as follows:

(i) *World Financial Properties:* The company owns a 70% (1996 – 46%) limited partnership equity and general partnership interest in World Financial Properties.

(ii) *Gentra:* The company owns 45% (1996 – nil) of the common shares of Gentra.

(iii) *Brookfield Management:* The company owns 70% (1996 – 70%) of the common shares of Brookfield Management.

(iv) *Carma:* The company owns 77% (1996 – 80%) of the common shares of Carma.

(c) Properties

(i) *Commercial Properties*

Commercial properties held for investment are carried at the lower of cost less accumulated depreciation and net recoverable amounts. Depreciation on buildings is provided on the sinking-fund basis over the useful life of the property. The sinking-fund method provides for a depreciation charge of a fixed annual amount increasing at the rate of 5% per annum. Depreciation is determined with reference to the rental properties' carried value, remaining estimated useful life and residual value.

The net recoverable amount represents the undiscounted estimated future net cashflow expected to be received from the ongoing use of the property and its residual value. To arrive at this amount, the company projects the cashflow for each property over a maximum of ten years and includes the proceeds from a residual sale at the end of the period. The projections take into account the specific

business plan for each property and management's best estimate of the most probable set of economic conditions anticipated to prevail in the market.

(ii) *Commercial Properties Under Development*

Commercial properties under development consist of properties for which a major repositioning program is being conducted and properties which are under construction. These properties are recorded at the lower of cost, including pre-development expenditures, and the net recoverable amount.

(iii) *Residential Development Land*

Residential development land is recorded at the lower of cost and estimated net realizable value. Costs relating to land designated for residential uses are allocated to the saleable acreage of each project or subdivision in proportion to the anticipated revenue.

(iv) *Homes and Other Properties Held for Sale*

Homes and other properties held for sale, which include properties subject to sales agreements, are recorded at the lower of cost and net realizable value. Cash received related to homes and other properties held for sale is offset against the cost of these properties.

(d) Capitalized Costs

Costs are capitalized on commercial properties for which a major repositioning program is being conducted, residential properties which are under development, home building properties and properties held for sale including all expenditures incurred in connection with the acquisition, development, construction and initial pre-determined leasing period.

These expenditures consist of all direct costs, interest on debt that is related to these assets and general and administrative expenses. Revenues relating specifically to such properties, except homes and the sale of building lots, are treated as a reduction of costs.

(e) Income Recognition

Revenue from a commercial property is recognized upon the earlier of attaining a break-even point in cash-flow after debt servicing, or the expiration of a reasonable period of time following substantial completion, subject to the time limitation determined at the time of approval of the project. Prior to this time, the property is categorized as a rental property under development and revenue related to such property is applied to reduce development costs.

The company has retained substantially all of the risks and benefits of ownership of its rental properties and therefore accounts for leases with its tenants as operating leases. Rental revenue includes percentage participating rents and recoveries of operating expenses, including property, capital and large corporation taxes.

Income from the sale of land and other properties is recorded when the collection of the sale proceeds is reasonably assured and all other significant conditions are met. Properties which have been sold, but for which these criteria have not been satisfied, are included in home building assets.

(f) Foreign Exchange

The company's operations in the United States are self-sustaining. Assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the rate of exchange in effect at the balance sheet date. Revenue and expenses are translated at the weighted average rate for the year. Gains or losses arising from the translation of US dollar denominated debt are amortized over the life of the debt and included in other revenues.

(g) Per Share Calculations

Net income per fully diluted common share has been calculated after providing for preferred share dividends, convertible debenture interest and minority shareholders' interests, using the weighted average number of fully diluted common shares outstanding of 115,640,262 (1996 – 51,346,459).

(h) Cash and Cash Equivalents

Cash and cash equivalents include $72 million (1996 – $81 million), which is designated for principal and interest payments on mortgages and tenant inducement expenditures, unless otherwise approved by the respective property mortgage holder. The balance also includes securities of $14 million (1996 – $24 million), which are carried at a value approximating market.

Note 2: Commercial Properties

(Millions)	1997	1996
Commercial properties	$ 6,570	$ 4,416
Less: accumulated depreciation	(175)	(115)
Total	$ 6,395	$ 4,301

(a) No costs were capitalized to the commercial property portfolio in 1997 or 1996.

(b) The decline of the Canadian dollar in relation to the United States dollar during 1997 caused the translated value of United States dollar denominated assets and liabilities to increase. As a result, from December 31, 1996 to December 31, 1997, the carrying cost of properties increased by $156 million (1996 – decrease of $4 million) when translated into Canadian dollars. This is offset by a corresponding increase in carrying value of debt which finances these assets.

(c) Three rental properties in the World Financial Center, carried at a net book value of approximately $2,022 million (1996 – $1,259 million) are situated on land held under leases or other agreements, largely expiring after the year 2069. Minimum rental payments on land leases are approximately $17 million per year for the next five years and $1,042 million in total.

(d) Commercial properties are shown net of $57 million (1996 – $68 million) of deferred credits which arose on the acquisition of the company's ownership interests in Brookfield Commercial. The deferred credits are utilized to offset the effect of lease incentives in place at the time of acquisition.

The following amounts represent the company's proportionate interest in incorporated and unincorporated joint ventures and partnerships.

(Millions)	1997	1996
Assets	$ 3,661	$ 2,268
Liabilities	2,670	1,676
Revenues	551	100
Expenses	432	84

Note 3: Residential Development Land

Residential development land includes residential land under development and residential land held for development, largely in later phases of master-planned communities, which will either be sold as lots to home builders or used in the company's home building operations.

(Millions)	1997	1996
Residential land under development	$ 515	$ 574
Residential land held for development	241	417
Total	$ 756	$ 991

The residential land development process includes the entitlement and processing of land. The company capitalizes interest and administrative and development costs which are expensed as building lots and homes are sold. During 1997, after interest recoveries of $63 million (1996 – $66 million), the company capitalized a net $3 million (1996 – $10 million) of interest and recovered a net $1 million (1996 – $7 million net capitalized) of administrative and development costs from the sale of residential homes and developed land.

The company, through its subsidiaries, is contingently liable for obligations of its associates in its residential development land joint ventures. In each case, all of the assets of the joint venture are available first for the purpose of satisfying these obligations with the balance shared among the participants in accordance with pre-determined joint venture arrangements.

Note 4: Receivables and Other

Receivables and other consists of shorter-term assets which are held for investment purposes until opportunities arise to invest this capital in the commercial property business. A description of these assets is as follows:

(Millions)	Weighted Average Interest Rate	1997	1996
Secured real estate mortgages	9.00%	$ 51	$ —
Real estate loans and receivables	7.45%	508	104
Non-core real estate assets		176	134
Prepaids and other assets		268	206
Total		$ 1,003	$ 444

The majority of the secured real estate mortgages and real estate loans and receivables mature prior to 2002.

Note 5: Long-Term Commercial Property Debt

The company's long-term commercial property debt outstanding and principal repayments at December 31, 1997 are as follows:

(Millions)	Weighted Average Interest Rate at Dec. 31, 1997	1998	1999	2000	2001	2002	2003 & Beyond	1997 Total	1996 Total
Commercial property mortgages	7.70%	$493	$84	$95	$115	$93	$3,477	$4,357	$3,354

Long-term commercial property debt is comprised entirely of obligations of subsidiaries in 1997 (1996 – $3,195 million). Long-term debt includes $4,085 million (1996 – $3,180 million) repayable in US dollars of $2,857 million (1996 – $2,338 million). The weighted average interest rate at December 31, 1996 was 8.07%.

Note 6: Residential Construction Financing

Residential construction financing was $577 million at December 31, 1997 (1996 – $707 million). Residential construction financing debt relates to construction and development loans which are repaid out of the proceeds from the sale of building lots, single-family and condominium homes. As new homes are constructed, further loan facilities are arranged on a rolling basis. The weighted average interest rate on these facilities as at December 31, 1997 was 8.65% (1996 – 7.98%). $227 million of these facilities are due by the end of 1998, and the remaining balances are due prior to 2004.

Note 7: Notes and Shareholder Advances

Notes and shareholder advances consist of the following:

(Millions)	1997	1996
Shareholder advances		
Revolving five-year term facilities	$ 225	$ 225
World Financial Properties' acquisition loan	—	341
Other including land and housing financing	265	405
Term notes	134	134
Total	$ 624	$ 1,105

The revolving five-year term facilities bear interest at the prime rate, and US$150 million is convertible at either party's option into a fixed-rate financing at 9.75% repayable in 2015. Interest expense includes $19 million (1996 – $31 million) of interest relating to shareholder advances.

NOTE 8: MINORITY SHAREHOLDERS' INTERESTS

Minority shareholders' interests includes common equity and perpetual preferred share equity of subsidiaries owned by others. Minority shareholders' interests are comprised of the following:

(Millions)	Minority Ownership %	1997	1996
Participation by minority shareholders in the common equity of subsidiaries			
Carma Corporation	23	$ 12	$ 18
Gentra Inc.	55	193	—
Brookfield Management Services	30	28	26
Brookfield Homes	—	—	15
		233	59
Perpetual preferred shares of subsidiaries owned by other shareholders			
Carma Limited		102	102
Brookfield Homes		55	55
Gentra Inc.		382	—
		539	157
Total		$ 772	$ 216

NOTE 9: SUBORDINATED CONVERTIBLE DEBENTURES

The company issued convertible debentures pursuant to an equity unit offering completed in February 1997. The convertible debentures mature on February 14, 2007 and bear interest at the rate of 6% per annum payable semi-annually on June 30 and December 31. The company, at its option, has the right to call for a subscription for common shares at market from its principal shareholder to fund these interest payments.

The debentures are not redeemable prior to February 14, 2000. Thereafter, and until February 14, 2002, the debentures are redeemable at par plus accrued and unpaid interest, but only if the weighted average daily closing price, at which the common shares of the company have traded on The Toronto Stock Exchange during 20 consecutive trading days, exceeds 125% of the conversion price. After February 14, 2002, the debentures are redeemable at par plus accrued and unpaid interest.

On maturity or redemption, the company has the right, at its option, to deliver common shares of the company at 95% of the weighted average daily closing price, in return for the amount owing on the debentures.

Each debenture is convertible into common shares at the option of the holder at any time after the payment of the final instalment in respect of the debenture due on February 14, 1998 and prior to the close of business on the earlier of February 13, 2007 and the last business day immediately preceding the date fixed for redemption, at a conversion price of $15.00 per share, being a rate of approximately 6.67 common shares per $100 principal amount of debentures.

NOTE 10: SHAREHOLDERS' EQUITY

The authorized share capital consists of:

6,312,000	Class A redeemable voting preferred shares
6,000,000	Class AA redeemable preferred shares
Unlimited	Class AAA redeemable preferred shares
Unlimited	Common voting shares

The issued and outstanding share capital consists of:

(Millions, except per share information)		1997	1996
Issued:			
6,312,000	Class A preferred shares bearing a cumulative dividend rate of 7¼%	$ 16	$ 16
2,000,000	Class AA Series E preferred shares bearing a cumulative dividend rate of 70% of bank prime	50	50
3,000,000	Class AAA Series A preferred shares bearing a cumulative dividend rate of 9%	75	75
3,000,000	Class AAA Series B preferred shares bearing a cumulative dividend rate of 9% and exchangeable into common shares of the company	75	75
6,000,000	Class AAA Series C and D preferred shares bearing a cumulative dividend rate of 8% and exchangeable into common shares of the company	150	150
132,831,971	Common shares (1996 – 51,346,459)	1,638	249
		2,004	615
Retained earnings and contributed surplus		168	155
Cumulative translation adjustment		36	14
Total		$ 2,208	$ 784

366

During 1997, the company completed five equity issues for $1,388 million, pursuant to which 80,556,003 common shares were issued at an average price of $17.23 per share as follows:

Issue Date	Type	Shares Issued	Price Per Share	Total Proceeds Before Costs
				(Millions)
February 14, 1997	Public Issue	23,077,000	$ 13.00	$ 300
May 28, 1997	Public Issue	19,672,132	15.25	300
July 25, 1997	Public Issue	21,052,632	19.00	400
September 30, 1997	Private Placement	4,604,239	19.00	87
October 17, 1997	Public Issue	12,150,000	24.75	301
Total		80,556,003		$ 1,388

The company also issued 784,435 common shares on the acquisition of the 4% minority interest of Brookfield Homes, 104,407 common shares pursuant to loan repayments under the company's Management Share Purchase Plan and 40,667 common shares under the company's Management Share Option Plan.

The company also issued 2.9 million warrants to purchase common shares pursuant to the company's acquisition of an additional 24% interest in World Financial Properties. These warrants are exercisable at $15.00 per share and expire on July 31, 2003.

As at December 31, 1997; 904,500 common shares were reserved for issuance pursuant to the company's share option plan at an average exercise price of $6.58 per common share. These options expire prior to February 2002.

As at December 31, 1997, retained earnings and contributed surplus includes contributed surplus of $155 million.

NOTE 11: 1997 ACQUISITIONS

During 1997, the company acquired a further 24% interest in World Financial Properties Inc. ("World Financial Properties") and a 45% interest in Gentra Inc. ("Gentra"). These acquisitions were accounted for under the purchase method of accounting.

The net assets acquired as a result of the acquisitions and the consideration given are as follows:

	Year Ended December 31, 1997		Year Ended December 31, 1996
(Millions)	World Financial Properties (April 24, 1997)	Gentra Inc. (Sept. 30, 1997)	World Financial Properties (Nov. 21, 1996)
Assets Acquired			
Commercial properties	$ 1,011	$ 804	$1,952
Cash and restricted cash	47	52	63
Other assets	16	400	45
	1,074	1,256	2,060
Liabilities Assumed			
Mortgage debt	848	303	1,605
Accounts and notes payable	23	79	50
Minority interests	—	562	—
	871	944	1,655
Net Assets Acquired	$ 203	$ 312	$ 405
Consideration Paid			
Cash	$ 203	$ 225	$ 50
Common shares	—	87	—
Loans receivable	—	—	355
Total	$ 203	$ 312	$ 405

The investment in Gentra Inc. was acquired from Trilon Financial Corporation on normal market terms and has been recorded at exchange value.

Note 12: Tax and Other Provisions

(a) The income tax provisions included in the determination of net income are computed by applying the expected Canadian federal and provincial statutory rates to the company's proportionate share of pre-tax income. The actual effective tax rate differs from the statutory rate, due primarily to items taxed at capital rates and items not subject to income tax.

(b) Current year's provision for tax amounted to $12 million (1996 – $1.3 million).

(c) The company has $96 million of non-capital losses available to reduce taxable income which may arise in the future, the benefit of which has not been recognized in the financial statements. These non-capital losses largely expire over the period to 2003. Subsidiaries of the company have $1,271 million of non-capital losses available to reduce taxable income which may arise in the future and expire over the period to 2011. The benefit of these losses has not been reflected in these financial statements.

Note 13: Segmented Information

The company and its subsidiaries operate in Canada and the United States in two major industry segments:

- the ownership of rental properties, largely office properties and mixed-use office and retail properties; and
- the building of homes for sale to consumers and the acquisition, development and sale of residential lots to home builders.

The following summary presents segmented financial information for the company's principal areas of business by industry and geographic location:

	Canada		United States		Total	
(Millions)	1997	1996	1997	1996	1997	1996
Rental Operations						
Revenue	$ 207	$ 169	$ 638	$ 194	$ 845	$ 363
Expense	77	54	252	97	329	151
Net operating income	$ 130	$ 115	$ 386	$ 97	$ 516	$ 212
Depreciation	$ 13	$ 10	$ 30	$ 17	$ 43	$ 27
Residential Home Building and Land Sales						
Revenue	$ 230	$ 147	$ 405	$ 397	$ 635	$ 544
Cost of sales	201	127	387	386	588	513
Net operating income	$ 29	$ 20	$ 18	$ 11	$ 47	$ 31
Property Assets						
Commercial properties	$ 1,962	$ 1,166	$ 4,433	$ 3,135	$ 6,395	$ 4,301
Residential home building and land	317	331	1,130	1,168	1,447	1,499
Total property assets	$ 2,279	$ 1,497	$ 5,563	$ 4,303	$ 7,842	$ 5,800

Note 14: Other Information

The company's operating subsidiaries are contingently liable under guarantees that are issued in the normal course of business and with respect to litigation and claims that arise from time to time. The amounts are not material, and in the opinion of management, any liability which may arise from such contingencies would not have a material adverse effect on the consolidated financial statements of the company.

Certain comparative figures have been reclassified to conform with the current year's presentation.

Generally accepted accounting principles require that, where practicable, estimates be made with respect to the fair value of both on and off balance sheet financial instruments.

The financial assets of the company are generally short-term floating rate loans receivable of a trade nature, with the exception of the company's subsidiary, Gentra Inc., which are longer term investments as described in Note 4. At December 31, 1997, the company's fair value of loans receivable exceeded their book value by $15 million (1997 – nil).

The fair value of mortgages and loans payable is determined by references to current market prices for debt with similar terms and risks. As at December 31, 1997, the fair value of mortgages and loans payable of the company exceeded the book value of these obligations by $65 million (1997 – nil).

Corporate governance relates to the activities of the board of directors who are elected by and accountable to the shareholders, and takes into account the role of management, who are appointed by the board of directors and who are charged with the ongoing management of the affairs of the company.

Brookfield's corporate governance practices are designed to promote the well being and ongoing development of the company, having always as its ultimate objective the best long-term interests of the company and the enhancement of value for all shareholders. The board also believes that sound corporate governance practices will promote and protect the interests of the company's employees and the communities in which the company operates.

This portion of the annual report has been approved by the Governance Committee of the board of directors, and has been prepared in response to The Toronto Stock Exchange Guidelines for Approved Corporate Governance (the "TSE Guidelines").

BOARD OF DIRECTORS

Mandate of the Board

Brookfield's board of directors oversees the management of the company's business and affairs, both directly and through committees. In doing so, the board acts at all times with a view to the best interests of the company. In fulfilling its mandate, the board, among other matters, is responsible for:

- reviewing the company's overall business strategies and its annual business plan;
- reviewing all major strategic initiatives to ensure that the company's proposed actions accord with shareholder objectives;
- appointing senior management and reviewing succession planning;
- assessing management's performance against business plans previously approved by the directors and against industry standards;
- reviewing and approving the reports issued to shareholders, including annual and interim financial statements, as well as materials prepared for shareholder meetings;
- ensuring the effective operation of the board of directors; and
- safeguarding shareholders' equity interests through the optimum utilization of the company's capital resources, which includes setting an appropriate dividend policy.

The board of directors meets at least once in each quarter, with additional meetings held when appropriate. The board of directors met 11 times in 1997. There were four regular meetings, one special meeting for reviewing the company's strategic business plan and six additional meetings to consider and approve specific items of business. Four regular meetings and one planning meeting are scheduled for 1998. Meeting frequency and agendas may change from time to time depending on opportunities or risks faced by the company.

Well-informed directors are essential for the effective performance of a board. Directors have the opportunity to meet with senior management and to participate in work sessions to obtain further insight into the operations of the company. Individual directors are free to consult with members of senior management whenever they so require and to engage outside advisors where appropriate.

Composition of the Board and Representation of Shareholders' Interests

The board of directors is comprised of individuals representing the company's major shareholder, independent directors and directors drawn from senior management. The board believes that this combination leads to a healthy exchange in board deliberations resulting in objective, well-balanced and informed discussion and decision making.

The board of directors of Brookfield currently consists of 12 directors. It is proposed that the board be expanded to 15 members in 1998 with the election of three additional independent directors. Following their appointment, the board of directors will include nine directors who are independent of the major shareholder and management. The company considers this to be an appropriate size and composition, given the diversity of the company's operations and the need for a variety of experience and backgrounds to ensure an effective and efficient board.

Approximately 50% of Brookfield's fully diluted outstanding common shares are held by EdperBrascan Corporation. The board believes that the involvement of a major shareholder is compatible with ensuring that senior management is accountable to all the shareholders as owners, in that the major shareholder, having a significant investment in the company, can play an important role on behalf of all shareholders in setting the terms of the business plan and assessing management's performance on an ongoing basis.

Brookfield considers that 11 of its 15 proposed directors, comprising a majority of the board, are unrelated directors within the meaning of TSE Guidelines: that is, free from any interest, business or other relationships (other than interests and relationships arising from shareholdings), which could, or could be reasonably perceived to, materially interfere with a director's ability to act in the best interests of the company and all its shareholders. In making this distinction, the circumstances of each director have been examined in relation to a number of factors, including whether or not they are members of management of the company or an officer of an affiliate.

The company considers that nine of the unrelated directors are also independent directors who are free from any interests in or relationships with the company or its major shareholder within the meaning of the TSE Guidelines.

Committees of the Board

Brookfield believes that the board committees assist in the effective functioning of a company's board of directors and that the appropriate composition of board committees should enable the views of unrelated and independent directors to be effectively expressed.

The board of directors of Brookfield has three committees: the Audit Committee, the Human Resources Committee and the Governance and Nominating Committee. Special committees may be formed from time to time as required to review particular matters or transactions. While the board of directors retains overall responsibility for corporate governance matters, the Audit, Human Resources and Governance and Nominating Committees have specific responsibilities for certain aspects of corporate governance as described below.

The following is a brief description of the mandate of each committee, its composition and the meetings held during the past year.

Audit Committee

The Audit Committee is comprised of four directors, all of whom are independent and unrelated directors: Messrs. David Lewis (Chairman), Paul McFarlane, Allan Olson and Sam Pollock. The Audit Committee is responsible for monitoring the company's systems and procedures for financial reporting and internal control, reviewing certain public disclosure documents and monitoring the performance of the company's external auditors. The committee is also responsible for reviewing the company's annual audited financial statements and management's financial analysis and review of operations prior to their approval by the full board of directors. The Audit Committee met twice in 1997, including meeting with the company's external auditors independent of management on both occasions.

Human Resources Committee

The Human Resources Committee is comprised of four directors, who are all unrelated directors: Messrs. Robert Harding (Chairman), Jean Beliveau, Robert Ferchat and David Lewis. Three members of the committee are also independent. The committee is responsible for reviewing and reporting to the board on human resource planning, including succession planning and proposed senior management appointments; the levels and form of executive compensation in general; and the specific compensation of senior executives. The committee also reviews the performance of senior management against written objectives and reports to the board. The Human Resources Committee met twice in 1997.

Governance and Nominating Committee

The Governance and Nominating Committee is comprised of four directors who are all unrelated directors: Messrs. Sam Pollock (Chairman), Robert Harding, John McCaig and Allan Olson. Three members of the committee are also independent. It is the responsibility of the Governance and Nominating Committee, in consultation with the Chairman, to periodically assess the size and composition of the board and its committees, to review the effectiveness of the board's operations and its relations with management, and to review and recommend directors' compensation. The Governance and Nominating Committee met once in 1997.

Management

Management's Role

The primary responsibility of management is to safeguard the company's assets and to create wealth for shareholders. When performance is found to be inadequate, the directors have the responsibility to bring about appropriate change.

Brookfield's governance practices are designed to encourage autonomy and effective decision making on the part of management, while ensuring scrutiny by the company's shareholders through its board of directors and its committees.

Management's Relationship to the Board

Senior management of the company reports to and is accountable to the board of directors. Mr. Gordon E. Arnell, Chairman and Chief Executive Officer, J. Bruce Flatt, President and Chief Operating Officer, Ian G. Cockwell, President of Brookfield Commercial Properties and L. Ross Cullingworth, Vice Chairman of the company are members of the board of directors. At its meetings, the board regularly engages in a private session with the company's Chairman and President without other members of senior management present. The board is also free to meet independently of any members of management on any matter.

Management Accountability

Business plans are developed to ensure the compatibility of shareholder, board and management views on the company's strategic direction, performance targets and utilization of shareholders' equity. A special meeting of Brookfield's board is held each year to review the strategic initiatives and the business plan submitted by senior management. The board's approval of the annual business plan then provides a mandate for senior management to conduct the affairs of the company knowing it has the necessary board support. Material deviations from the plan are reported to and considered by the board.

Board Information

Information provided by management to directors is critical to their effectiveness. In addition to the reports presented to the board at its regular and special meetings, the board is also kept informed on a timely basis by management of corporate developments and key decisions taken by management in pursuing the company's business plan. New directors are provided with comprehensive information about the company and its operations. The directors periodically assess the quality, completeness and timeliness of information provided by management to the board.

Management Rewards

Brookfield's compensation plans are based on maintaining a direct link between management rewards and the wealth created for shareholders so that a portion of senior executives' rewards are through share ownership. Annually, executives receive allocations of share purchase options to augment their compensation. Brookfield is also committed to maintaining periodic reviews of its compensation practices to ensure that management is fairly rewarded over time based on performance.

Investor Communications

Brookfield endeavours to keep shareholders informed of the company's ongoing affairs. Accordingly, the company publishes reports to shareholders on a quarterly basis, including a comprehensive annual report. These reports, together with press releases, shareholder meeting materials and certain other statutory filings, are reviewed and approved by the board of directors.

In addition to annual shareholders' meetings, management is available to meet with shareholders and is available to respond to questions. Brookfield maintains an investor relations function to ensure shareholders' inquiries are dealt with in an appropriate manner.

Brookfield's management is in contact with the investment community and meets regularly with investment analysts to ensure that accurate and appropriate information is available for investors. Brookfield also endeavours to ensure that the media is kept informed of developments as they occur, and have the opportunity to meet and discuss these developments with the senior management of the company.

Directors and Officers

Directors

Gordon E. Arnell
Calgary, Alberta
Chairman and Chief Executive Officer
Brookfield Properties Corporation

Jean A. Beliveau, O.C.
Montreal, Quebec
President
Jean Beliveau Inc.

Ian G. Cockwell
Oakville, Ontario
President
Brookfield Commercial Properties

L. Ross Cullingworth
Toronto, Ontario
Vice Chairman
Brookfield Properties Corporation

Senator J. Trevor Eyton, O.C.
Caledon, Ontario
Senior Group Chairman
EdperBrascan Corporation

Robert A. Ferchat
Mississauga, Ontario
Chairman and Chief Executive Officer
BCE Mobile Communications Inc.

J. Bruce Flatt
Toronto, Ontario
President and Chief Operating Officer
Brookfield Properties Corporation

Roger N. Garon*
Montreal, Quebec
Chairman
Multi-Vet Ltd.

Robert J. Harding
Toronto, Ontario
Chairman
EdperBrascan Corporation

David A. Lewis
Toronto, Ontario
Corporate Director

John R. McCaig
Calgary, Alberta
Chairman
Trimac Corporation

Paul D. McFarlane*
Toronto, Ontario
Senior Vice President
Canadian Imperial Bank of Commerce

Allan S. Olson
Edmonton, Alberta
President
First Industries Corporation

Sam Pollock, O.C.
Toronto, Ontario
Vice Chairman
Brookfield Properties Corporation

Michael R. Smith*
Toronto, Ontario
Partner
Smith & Zoldhelyi

**Directors elect*

Corporate and Operating Executives

Gordon E. Arnell
Chairman and Chief Executive Officer

J. Bruce Flatt
President and Chief Operating Officer

Ian G. Cockwell
President
Brookfield Commercial Properties

William J. Pringle
President
Brookfield Homes

Steven J. Douglas
Senior Vice President and Chief Financial Officer

John D. Kennedy
Vice President and Controller – Commercial

Paul G. Kerrigan
Vice President and Controller – Homes

P. Keith Hyde
Vice President, Taxation

Michael Zessner
Vice President and General Counsel

Gentra Inc.

David D. Arthur
President and Chief Executive Officer

Brian C. Collyer
Senior Vice President, Business Development

Kieran F. Mulroy
Senior Vice President and General Counsel

Robert W. Powell
President, Real Estate Finance

Nick G. Sabat
Senior Vice President, Retail

John M. Sullivan
Senior Vice President, Office

Karen H. Weaver
Chief Financial Officer

Brookfield Management Services

John W. Campbell
President, Brookfield Management Services

Harold R. Brandt
President, Midwest U.S.

Jim Dickinson
Vice President, Pacific Canada

Serge G. Duguay
President, Brookfield Cogir, Montreal

Thomas F. Farley
Vice President, Western Canada

Gordon I. Hicks
Senior Vice President and Chief Operating Officer, Facilities Management

John M. Oakes
President, Residential Management

Tracy W. Wilkes
President, Mountain U.S.

R. Barry Wilkinson
President, Ottawa

World Financial Properties

John E. Zuccotti
Chairman

Richard B. Clark
Executive Vice President and Chief Operating Officer

Edward F. Beisner
Senior Vice President and Controller

Lawrence F. Graham
Senior Vice President, Operations & Development

Jeremiah B. Larkin
Senior Vice President, Leasing

Kathleen G. Kane
Senior Vice President and General Counsel

Robert A. Ross
Senior Vice President, Finance

Brookfield Homes

David B. Adler
Managing Partner, Adler Partnership

John DeGroot
President, Ontario

Stephen P. Doyle
President, San Diego

Robert C. Hubbell
President, Virginia/Maryland

Richard E. Lamondin
President, Florida

Jeffrey J. Prostor
President, Southland (Los Angeles)

John J. Ryan
President, San Francisco Bay Area

Carma Corporation

Alan Norris
President and Chief Executive Officer

R. Brian Hodgson
Executive Vice President and Chief Operating Officer

David C. Harvie
Senior Vice President, Corporate Planning

Douglas W. Kelly
Senior Vice President

Peter E. Nesbitt
Senior Vice President

Herbert E. Groenenboom
Vice President, Finance

Corporate Information

Head Office
P.O. Box 770, Suite 4440
BCE Place, 181 Bay Street
Toronto, Ontario
M5J 2T3
Tel: (416) 359-8600
Fax: (416) 865-1288

Transfer Agent
CIBC Mellon Trust Company
P.O. Box 7010, Adelaide Street Postal Station
Toronto, Ontario
M5C 2W9
Tel: (416) 643-5500 or (800) 387-0825
(toll free throughout North America)
Fax: (416) 643-5501
Website: www.cibcmellon.ca
Email: inquires@cibcmellon.ca

Legal Counsel
Tory Tory DesLauriers & Binnington
Suite 3200, Aetna Tower
Toronto, Ontario
M5K 1N2

Cahill Gordon & Reindel
Eighty Pine Street
New York, New York
10005

Auditors
Deloitte & Touche
Suite 1400, BCE Place
181 Bay Street
Toronto, Ontario
M5J 2V1

Stock Exchange
Toronto

Ticker Symbols
BPC, BPC.ia

Shareholder Information
Shareholder questions relating to financial information and results should be directed to the company, at its head office, to the attention of Steven J. Douglas, (416) 359-8600. Shareholder questions relating to dividends, address changes and share certificates should be directed to the company's Transfer Agent.

Notice of Annual Meeting
The Annual Meeting of Shareholders will be held at the CBC Building, Glenn Gould Studio, 250 Front Street West, Toronto, Ontario, at 10.00 a.m. on April 29, 1998.

BROOKFIELD
PROPERTIES CORPORATION

P.O. Box 770, Suite 4440
BCE Place, 181 Bay Street
Toronto, Ontario
Canada M5J 2T3
Tel: 416.359.8600
Fax: 416.865.1288

Printed in Canada